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DOMINION-PROVINCIAL CONFERENCE (1945)

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DOMINION AND PROVINCIAL
SUBMISSIONS

AND

PLENARY CONFERENCE
DISCUSSIONS



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OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

DOMINION-PROVINCIAL CONFERENCE (1945)

DOMINION AND PROVINCIAL
SUBMISSIONS

AND

PLENARY CONFERENCE
DISCUSSIONS



OTTAWA
PRINTED BY THE KING'S PRINTER
1945

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DOMINION-PROVINCIAL CONFERENCE ON RECONSTRUCTION

AUGUST 6 - 10, 1945

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PLENARY SESSION — No. 1



DOMINION-PROVINCIAL
CONFERENCE

ON

RECONSTRUCTION

Monday, August 6, 1945

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

DOMINION-PROVINCIAL CONFERENCE ON RECONSTRUCTION

HOUSE OF COMMONS, OTTAWA, AUGUST 6, 1945

REPORT OF PROCEEDINGS

The Dominion-Provincial Conference on Reconstruction met in the Commons Chamber at 10.00 a.m., the Prime Minister, the Right Hon. W. L. Mackenzie King, presiding.

OPENING ADDRESS BY THE PRIME MINISTER

Right Hon. W. L. MACKENZIE KING (Prime Minister): Gentlemen, my colleagues and I in the Government of Canada extend to the Premiers of the several provinces and to the Ministers of the Crown who have accompanied them a very cordial welcome to Ottawa and to the Conference on Reconstruction which is about to open. May I extend a similar greeting to the officials and advisers who have accompanied the provincial Premiers. I hope that this week will afford us all an opportunity not only of participating in the proceedings of the Conference but of seeing a good deal of each other personally, and of having many opportunities to discuss matters of mutual interest and concern.

With your permission, I will now declare the proceedings of the Conference opened.

May I at the outset of the proceedings express, on behalf of the Dominion Government, our warm appreciation of the ready acceptance by the Premiers of all the provinces of the invitation which was extended on June the 21st last to this Dominion-Provincial Conference.

I am sure I may say on behalf of all present that we are meeting together in conference with one overriding objective which we hold in common: the development of our homeland from coast to coast, and the progress and welfare of the Canadian people.

It is true that the primary responsibility of each provincial government is to the residents of its own province. But the fact that we are met together in conference is, in itself, a recognition that the interests of each province are inseparably bound up in the common good of all.

In the proposals which the Dominion Government will place before the Conference, my colleagues and I have, as is our duty, given first consideration to what we believe to be in the interests of Canada as a whole. But we have sought always to keep in mind the paramount fact that Canada is a federal state in which each of the provinces has its own special characteristics and special problems. The Dominion's proposals have been so framed that provincial and national governments alike would be strengthened in their capacity to perform their appropriate functions. Our sincere desire is to have the proceedings of the Conference carried on in an atmosphere in which, because of the respect accorded the appropriate sphere of each government, the greatest possible cooperation will be achieved.

The Purpose of the Conference

The Conference is to be known as the Dominion-Provincial Conference on Reconstruction. Broadly speaking, I should define its purpose as an effort to

ensure the maximum of cooperation between the Federal government and the governments of the provinces, in order that the Canadian people, working together, may achieve the constructive goals of peace as effectively as they have carried on the essential, though inevitably destructive, tasks of war.

The world which is emerging from a war not yet finally won is bound to be a difficult world for every country. Decisions of international importance are going to be made in the next year or two, decisions which will affect future trends in history. The voice of Canada must be strong and clear so that her interests will have their rightful place in the complex pattern of international affairs now emerging out of the chaos of war.

No country can live unto itself. That is the lesson we have learned in the bitterness and anguish of conflict. Hope for the world lies in the well-being of every nation. Unity of purpose and harmony of plan must be sought at home so that unity and harmony can be won abroad.

At San Francisco, the nations of the world endeavoured, for the good of all, to set limits on their individual ambitions. They sought collective security through collective generosity. At this conference it is ours to pave the way for national progress. It is equally ours, by maintaining unity of purpose, to build not only security and prosperity at home, but also to contribute to security and prosperity abroad.

Pride in Wartime Achievements

The people of Canada are justly proud of our country's wartime achievements. We are profoundly grateful for the complete victory over Nazi Germany. To the Allied triumph in Europe, Canada contributed in significant measure. What we were able to do in war—the magnitude of our achievement—has given to Canadians a new vision of their own future, and of the possibilities of national achievement in peace. I would ask all present to join tomorrow in extending a national welcome to the General who commanded the victorious Canadian army. The welcome of General Crerar will be a tribute to the armed forces of our country. In paying that tribute, may we, at the same time, resolve to maintain the spirit of our fighting men. They have assured our freedom. May we use that freedom to win the victories of peace; victories over distance, over climate, over nature; victories over depression, over unemployment, over insecurity and over want; victories over prejudice, over intolerance, and over disunity. To be worthy of Canada's wartime achievements, to be worthy, above all, of the sacrifice of human life; let us resolve to work together to make Canada a land of ever widening opportunities for all our people, regardless of origin, of class or of region, the best land on earth in which to work and to live. The finest of all memorials to the men who have gone forth from Canada never to return will be our striving to work together towards that ideal.

The Meaning of Reconstruction

I have said that we have met for a Conference on Reconstruction. What do we mean by reconstruction? How different is the meaning of that word in Europe to what it is for us! Our country has, fortunately, been spared the terrible physical destruction which has been the lot of so many lands. Ours is not a task of physical rebuilding. For Canada, reconstruction means the conversion from a wartime to a peacetime basis; to shift the gears of the nation's economy from the service of the ends of war to those of peace. In saying this, I do not forget that the war chapter is not closed. The Canadian people are resolved to make their just contribution to the defeat of militarist Japan. But the day of final victory over Japan is coming surely, and we believe swiftly. All the United Nations are today faced with the double task of finishing the war and entering

upon the peace. In preparing for a real peace at home as well as abroad, we are seeking to transform our war economy into a peace economy with a minimum of distress, disturbance and dislocation.

But, by reconstruction, none of us, I am sure, means a return to conditions as they were in the early nineteen-thirties. We must go forward to a better social order, a more reliable economic structure, than we have ever had before. To achieve this will not be easy. It would be a fatal mistake to under-estimate the seriousness of the task. Because the war has demonstrated an unexpectedly large productive capacity in this country is no reason to assume that automatically we shall be better off than we were before the war.

Our productive capacity has been enlarged in response to an immense governmental demand for labour and materials arising out of the war. In order to continue to use Canada's productive capacity fully after the war, other and broader outlets must be found. To effect this, we need to achieve a much higher standard of living, a more rapid rate of capital development and substantial export markets.

International Aspects of Reconstruction

When the war with Japan is over, we shall no more be finished with this war than we were finished with the first Great War when the Armistice was concluded in November, 1918. The effects of the war will remain, and will affect all of us for many years to come. I have in mind the colossal loss of life; the impairment of health and the sufferings of millions of people, and the physical displacement of multitudes torn from their homes, the destruction of dwellings, of factories, of production and transportation facilities, and the complete disorganization of that substantial portion of the world most immediately affected by the war.

If one looks at Europe one sees a continent which bears small resemblance to the Europe we have known in the past. With great parts of it the Western world has, for the time being at least, few effective contacts. The liberated countries of Western Europe face great difficulties in picking up the threads of their pre-war life. Many of the old ties are severed forever.

Let no one think that the difficulties and distress which the war has brought to a large part of the world are no concern of Canada's. They affect us deeply and directly. They affect us as a matter of common humanity. We could not, even if we so desired, hold ourselves aloof from the plight of those who during these long and bitter years of war have shared our hopes and fears, have fought at our side.

But it is not sympathy only that makes it necessary for us to concern ourselves with world affairs. It is also self-interest. For world affairs directly affect the livelihood of our citizens, for better or for worse. This, in greater or less degree, is true of all countries. No isolation, economic or political, is possible. No country, today, can cut itself off from the world. But even more than most countries, Canada is exposed to the impact of external conditions. We are one of the great trading nations of the world, and our economy is inextricably linked up with the economies of other countries. In a world which is prosperous and stable, we can hope to manage our affairs in such a way as to achieve, in this country, prosperity and a high standard of living. In a world which is depressed and disorganized, our task would be much more difficult.

Canada's Contribution to International Reconstruction

Realizing as we do that a vital national interest is at stake, we, in this country, have striven with might and main to contribute to the establishment of a peaceful and prosperous world. The effort to lay the foundations for such a world is a difficult and complex one. This effort has gone forward along several parallel lines. At Hot Springs, a start was made at tackling on a world

scale the important problems of agriculture and food consumption. At Atlantic City, the United Nations Relief and Rehabilitation Administration was set up to provide for the immediate needs of the distressed populations of the war-stricken countries. At Bretton Woods, the basis was laid for dealing with international exchange problems and for stimulating the international movement of capital for productive purposes.

At San Francisco, the United Nations laid the basis for a world security system through which it is hoped to maintain among the United Nations the same degree of co-operation in peacetime as has prevailed during the war. As an integral part of the Charter, provision is made for continuing economic collaboration among nations, and for a co-operative effort to attain higher standards of living, full employment, and economic and social progress throughout the world.

Canada has played her part in all these gatherings. I say, with some pride, that the part our country has played is widely recognized as a helpful and constructive one. We have only made a beginning. I am certain that in the great tasks of world economic reconstruction that lie ahead the Canadian people in every part of the dominion will be anxious that Canada takes her full share, in her own interest as well as in the general interest of mankind.

Need of a Strong and United Canada

I have spoken about the international background because, while we have met to look at our domestic picture, we cannot forget that this picture has as its background our relations with the rest of the world. The background is a sombre one. We are approaching our task in a world so riven and torn by war that the difficulties of achieving success—difficulties which would be very great under the most favourable conditions—are tremendously increased.

Under our federal system, the Dominion Government has power in wartime to take whatever action may be required to wage war successfully. In peacetime, the Dominion Government has more limited powers. The successful development of peacetime policies, the success of reconstruction, depend no less upon the policies of the provinces than upon those of the dominion. If all our governments, each in its own sphere, are able and willing to work together towards common objectives, it is obvious that our domestic policies will have much greater prospect of being successful. It is certainly true that discord or lack of co-operation will frustrate the efforts of all governments. There is something equally important. In this period of transition throughout the world, the effective co-operation of dominion and provinces will be essential if Canada, in her own interest, is to make the contribution which it is vital our country should make to world reconstruction, world security and world prosperity. The greater the element of certainty and stability Canada can contribute to world affairs, the greater hope there will be for our own future and for the future of humanity.

The coming years are going to be anxious and troubled years. In these years great questions affecting our own and future generations will be decided. They are years which will determine whether the world is to have lasting peace, whether international trade is to be restored, whether a high level of employment and social security are to become increasingly the common lot.

Dominion-Provincial Relations in Wartime

Under war conditions, the more noticeable functions of government have, of necessity, been those of the federal government. To the federal administration has fallen the responsibility of organizing and directing the national war effort. During these years of stress the public has tended, perhaps, to lose sight of the vital tasks which the provincial governments have continued to discharge. All through the years of war, the provinces have carried on their usual tasks.

These provincial functions are among those on which the perpetuation of our whole ordered society depends. The provinces have continued to administer justice, to provide the major civil police services, to maintain and even, where possible, to expand educational, health and welfare services. The foundation of our war effort is a sound and efficient community. In the maintenance of such a national community, in wartime, the part of the provincial governments has been very great.

In other ways, the provincial governments have contributed directly and immediately to the war effort of our country. I should like, on this occasion, to express my appreciation and that of the government, for all that has been done to facilitate our wartime task by the administrations of the nine provinces. Especially, I wish to mention the wartime financial agreements. By these arrangements, the provinces were assured of the necessary financial resources to maintain their own services, while the national government was given freedom to mobilize the whole of the financial resources of the nation efficiently and economically in the cause of freedom. From that co-operation both sides profited. As a consequence, all governments are emerging from the present war in a stronger financial position than any one would have believed possible in 1939. It is similar co-operation, in the period of reconstruction and in peacetime, that we are now seeking co-operation from which all governments will gain increased strength.

Dominion-Provincial Relations in the Post-War

What exactly is the relationship we are seeking between the Dominion and the provinces? Let me first make very clear what we are not seeking. The federal government is not seeking to weaken the provinces, to centralize all the functions of government, to subordinate one government to another or to expand one government at the expense of others. Our aim is to place the Dominion and every province in a position to discharge effectively and independently its appropriate functions. In other words, we believe that the sure road of Dominion-Provincial co-operation lies in the achievement in their own spheres of genuine autonomy for the provinces. By genuine autonomy, I mean effective financial independence, not only for the wealthier provinces but also for those less favourably situated.

We believe that once the provinces have reasonable financial security, it will be much easier for them to co-operate with the Dominion in the furtherance of policies which neither can bring into effect successfully without the help of the other.

To put it very briefly, we regard autonomy and co-operation as essential means of achieving satisfactory Dominion-Provincial relations.

Objectives of Dominion Proposals

What then are the aims or objectives for which we are seeking the best possible Dominion-Provincial relations? To express them, also very briefly, we are asking the provinces to go into partnership with the Dominion in a broad programme for the development of our national heritage, and the promotion of the welfare of the Canadian people.

The proposals which the federal government is placing before the Conference are directed to attaining a progressive and secure standard of living based on remunerative employment for all who are able and willing to work, and expanding markets at home and abroad for efficient agricultural and other primary industries. Our proposals envisage co-operation in the intelligent and systematic conservation and development of our natural and other resources, and, to this end, the fullest application of scientific knowledge and research. The proposals seek to further the enlargement of opportunities for individual and community development and the fullest encouragement of enterprise whether,

in its appropriate field, the enterprise is public or private. Without excluding action by the state, the reconstruction programme of the federal government is deliberately designed to encourage and foster "employment-creating" enterprise by individuals and corporations.

Above all, we aim at the maintenance of a high level of employment and income. In no field are the interests of Dominion and provinces more thoroughly one than in the maintenance at all times of a high level of employment. The fear of war is undoubtedly the worst of all fears in the minds of men today. But next to the fear of war, the greatest fear for most men is the fear of unemployment. There are men and women who almost dreaded the coming of victory because they feared that depression and unemployment might come in victory's train. That fear we must all seek, in close co-operation, to remove.

This is not the time to enter into academic or political arguments about the comparative merits of public and private ownership of productive undertakings. The practical fact is that, in present circumstances, the bulk of employment must be provided by private and corporate undertakings. If we are to maintain a high level of employment and income in the period of reconstruction, the action of government—and by government I mean all governments, provincial as well as federal—must be such as to increase, not to decrease, the opportunities for individual freedom and initiative. At the same time, freedom and initiative must not be directed to purely selfish ends. These great qualities must be harnessed in the service of the community. [We are convinced that the people of Canada expect governments— all governments—to accept responsibility for creating conditions which will ensure high and stable employment. To create such conditions, we believe it should be made possible, through reduction and simplification of taxes, and in other ways, for private enterprise to operate boldly and courageously. We believe the state—and by the state, may I say again, I mean provinces as well as Dominion—should design programmes of public development and conservation which can be readily expanded or contracted to help in balancing the rise and fall of other sources of employment. We also believe that, under modern industrial conditions the state has an inescapable responsibility to provide, through unemployment insurance and assistance, a minimum of livelihood to those who, through no fault of their own, find themselves without work.]

Finally, our proposals are designed to make possible a comprehensive system of social insurance, partially federal and partially provincial, through which the community will share with the individual in meeting the variations of income and expense to which the rise and fall of business activity, natural disasters, accident, ill health and old age render all of us liable. Improved standards of nutrition, housing, health and social amenities, for both urban and rural populations, are also objectives of our reconstruction policy. Of these housing is a most urgent need in the period of reconstruction.

It will be impossible to achieve these most necessary and desirable results by action of the federal government alone. They can be achieved only by full co-operation among all the governments in the country. The basic fact which this Conference must face is that as Canadians we cannot have conditions which promote the most effective use of our resources, a high level of employment, an effective social security programme, and steadily rising standards of living for all sections of the Canadian people, unless the Dominion and the provincial governments are able to agree on a well-considered constructive programme for the future.

I wish in conclusion to emphasize anew that the fundamental purpose of this Conference is to strengthen all the participating governments, provincial as well as Dominion. Only in this way can we all work effectively towards the common goal of ensuring a strong, a united and a happy Canada. I am convinced that the future of our country depends upon its unity and strength as a nation. We

know that the peace of the world largely depends upon the achievement of world prosperity. We know that our country cannot make its full contribution to world peace and prosperity unless its government is strong and its people united. But we do not believe that unity is to be found in uniformity, in standardization or in centralization. We believe the unity and strength of Canada is equally dependent upon the soundness and strength of the provinces, and their capacity to discharge their functions effectively. We believe that, only when the provinces are relatively secure in their own spheres, can we achieve the co-operation among all governments so essential to our country's needs.

The lessons of war have taught us the vital importance of co-operation in an effort to reach a common goal. Without unity there is frustration. Now that we are coming face to face with the problems of the post-war years, the need for unity and co-operation is not less than it has been: from some points of view, it is greater. The enemies we shall have to overcome will be on our own Canadian soil. They will make their presence known in the guise of sickness, unemployment and want. It is to plan for a unified campaign in Canada against these enemies of progress and human well-being that we have come together at this time. This may well be the most important Canadian Conference since Confederation. It is ours to make it worthy of the place which Canada holds today in the eyes of the world.

Hon. GEORGE DREW (*Premier of Ontario*): Mr. Prime Minister, on behalf of those who are here from Ontario I wish first of all to extend to you, to your colleagues and to the others gathered here an expression of our pleasure of having this opportunity of meeting at this time. I wish to say how glad every one of us is to meet the representatives of the government of Canada and of every other government which will share the responsibility in that partnership to which you, Sir, have referred.

As the Prime Minister of Canada pointed in the closing words of his remarks, this meeting will be the most important gathering of government representatives in the history of Canada. Its success will depend upon the cooperation shown here, the full cooperation of partners upon a full, frank and complete partnership basis.

I have not any prerogative to speak for the other provinces but I feel sure that every other province comes here in the same spirit that we do. We recognize the extremely heavy burdens and the tremendously heavy task of the Dominion government. We recognize that those burdens are burdens which cover the whole country and have to do with the needs of the whole country. But under the structure of Confederation, which the Prime Minister has very clearly indicated is not to be discarded by our gathering here, each of those governments is not merely a subsidiary government; it is a government which has responsibilities in fields of its own not covered by the activities of the Dominion government.

Difficulties in the interpretation and application of the British North America Act, under rapidly changing social and economic conditions, had been recognized long before the war. The Prime Minister has said that the conference is to be known as The Dominion-Provincial Conference on Reconstruction. Following the precedents that have been followed in the past I assume that this is a suggestion offered to the steering committee as to the name which should be chosen for the conference as a whole; and it does seem particularly appropriate at this time that our thoughts should be directed to the subject of reconstruction. But we all recall that quite apart from the problems of reconstruction emerging from the war itself there were other problems recognized long before the war, and long before these special difficulties had arisen with which we are faced to-day. I believe that we should not be forgetful in the slightest degree of the background of these problems in approaching the broad solutions that we now must face.

Those difficulties, however, were relatively unimportant when compared with the problems with which each government—and I recognize and emphasize most particularly the Dominion government—is confronted with to-day. Faced with unprecedented demands upon the resources of the country the Dominion government was forced to assume many administrative responsibilities under emergency powers which were clearly outside of its peace-time constitutional jurisdiction. The provinces raised no objection to that. On the contrary they heartily concurred in the proposals that such work should be done, and expressed it in the form of a clearly definitive agreement which was signed voluntarily by all these provinces. I do not think anyone will question the necessity of that course to-day, no matter how much disagreement there may be about the details of the administration resulting from the exercise of those greatly extended powers. Now, however, we must look to the means by which our combined national strength may be maintained after those war powers have come to an end.

Already we rejoice, as has been so properly pointed out, in the crushing defeat of our European enemies. While heavy demands will still be made upon the courage and endurance of our youth, complete victory in the Pacific is now only a matter of time. With the passing of the war emergency the extraordinary basis, and the agreements between the Dominion and provincial governments centralizing the control of our most important sources of taxation will automatically terminate. If that should happen before we have reached agreement as to the relationship between the Dominion and the provincial governments in several fields of taxation and administrative authority chaotic conditions may prevail. It is not a question of whether we can reach an agreement on cooperation, we must reach agreement out of this conference. The situation is very different to-day from that which followed the last war. While the Dominion government of those days found it necessary to raise large sums of money for the conduct of the war, the financial burden was relatively very much less. With the termination of hostilities in 1918 the Dominion and provincial governments returned to their earlier constitutional relationship with but few changes in taxation, and with practically no demand for any substantial changes in taxation and administrative powers. The demands which subsequently arose for such changes were the direct result of the social and economic problems of the decade before the present war, although we must recognize, and it is important that we recognize, that the root of many of these problems undoubtedly lay in the trade dislocations which were the aftermath of the last war and because of the military preparations of the aggressor powers to a considerable degree.

There are most compelling reasons why we must carefully examine the whole taxation and administrative structure of Confederation so that the combined machinery of government throughout Canada may work smoothly and efficiently in the years ahead. It is not necessary to offer statistical support for the statement that as a people we have assumed enormous financial obligations which make it vitally important to every Canadian that there be no avoidable constitutional or administrative conflict between our several governments in dealing with the increasingly complex social and financial obligations which those governments will be called upon to undertake.

How can those of us who are assembled here, merely the temporary custodians of great responsibilities, perhaps some more temporary than others, but only in the great movement of time, temporary custodians of the abiding welfare and interest of our people, best tackle this tremendous job which lies ahead? How can we best employ our vast resources? How can we best guide and assist the development of this very fortunate land? I concede it to be the function of government to guide and assist, and not to be actually the body which itself does the work. That is not our theory of government. These are questions that we are called upon to answer not as representatives of any

particular part of Canada but as Canadians all the time with the broad welfare of our whole country and of all its people foremost in our thoughts during the discussions.

As we seek the answer to these questions I do not think that we should be too rigidly bound by the mere letter of the British North America Act. If any of us were convinced to-day that it would be best for Canada and consistent with the rights, freedom and welfare of our people that there should be complete centralization of legislative and administrative authority in one government at Ottawa or elsewhere, then I think it would be our duty to say so. There are those—and we must recognize it—I am not suggesting they are here, but in the discussions that have taken place—who believe that this course would be desirable. Many of those who approach the whole problem of government from a strictly business point of view alone are inclined to ignore the very practical considerations founded in history and tradition which make any merely business approach impossible of acceptance, certainly for many years to come. Then there are others who would not go so far as to suggest that there be complete centralization, but who believe in very much greater centralization than we have to-day. After all it may very properly be pointed out that Macdonald himself was strongly in favour of full legislative union. He however accepted the fact that a substantial majority of the representatives of the provinces believed in a confederation which would retain for the provinces their own governments and legislatures with sovereign authority in clearly defined fields of legislation, particularly those of purely local concern within the provincial boundaries.

To avoid the suggestion that we who are gathered here are too greatly circumscribed in our thinking by unquestioning acceptance of a constitution drafted many years ago to meet circumstances extremely different from those we now face, I think it is very much more than idle speculation to ask ourselves what kind of constitution we would adopt to-day if we were completely free to choose and had met here as those people met prior to 1867. Our views on that question, no matter how remote it may seem to be from our present discussion, will have an important bearing on the direction from which we approach the solution of our immediate problems. I assume that we are all agreed there are reasons founded in history which make it certain that there is no present disposition throughout Canada to change the general structure of confederation. But even if those practical considerations of local interest and ancient tradition did not preclude the possibility of establishing one centralized government, I think it would be useful for us to bear in mind that other powerful arguments could still be found in favour of the decentralized governmental system of Confederation in a country of the area and diversity of Canada.

I think it is worth recalling, as we approach the termination of a war which has been fought for the democratic processes, so far as we are concerned, that those who drafted the Constitution of the United States started with a clean sheet and yet they chose the same general system of government as we have to-day for clearly stated reasons. In fact I do not think any constitution ever emerged when those drafting it were better equipped by education, by training and by understanding to express their opinion as to why the constitution was emerging which they were then drafting. They devoted much discussion and thought to the assurance of constitutional safeguards against the possibility of any individual or group of individuals usurping authority and limiting democratic liberty within the framework of the constitution. Thomas Jefferson, whose views we have as much reason to respect as have the citizens of his own country, was the real interpreter, the spokesman for those who were responsible for most of its work. He left a clear record of what guided them. He frequently emphasized his belief and the belief of those with whom he was associated that the surest protection to liberty—the very sort of liberty Canada has been fighting for—was the decentralization of a large measure of authority

under autonomous local governments. Having regard to the place he occupies in the history of that great democracy it may be appropriate to recall his thoughts on this subject. He summed up his opinion in these few words:

What has destroyed liberty and the rights of man in every government which has ever existed under the sun? The generalizing and concentrating all cares and powers into one body.

That was the thought which prevailed in drafting the constitution of the United States, which in many ways is not unlike our own. And that constitution has stood the test of many stresses and strains including a great civil war; and to-day the United States emerges as one of the leading lights of democracy in the world.

I quote Jefferson merely for the purpose of indicating that there are other reasons than mere business efficiency which may perhaps be a useful guide to our thoughts in determining, not only whether provincial governments should retain their full authority, but also the extent to which their authority should be retained. Certainly there can be no doubt that the more the control of taxation and administrative power is centralized in any country, the greater the impact may be upon the social and economic life of the whole country of any sudden and sweeping change of policy on the part of the central government. Not only because of the very practical considerations in our own country which are as real to-day as they were in 1867, but also because of sound arguments which can be advanced in support of decentralization of authority, the strength of the provincial legislatures and their governments within their own clearly defined jurisdiction should be maintained.

I can express my point of view very simply and it is the point of view I have expressed before. I believe that we should have a strong central government capable of dealing with all matters of national concern, free of any limiting restrictions which arise from constitutional difficulty or lack of clear definition of their powers. At the same time I think it is equally important—and I think the Prime Minister has expressed the same view from his remarks—that there be strong provincial governments which are free and adequately financed to deal with their own affairs with the utmost dispatch, and without restriction of any constitutional difficulties or lack of definition of their powers. The idea of strong and vigorous provincial governments is in no way inconsistent with the thought of strengthening the federal government in the performance of all its constitutional responsibilities by the voluntary agreement of every province of Canada.

Many proposals have been made for the adjustment of legislative and taxing powers. I do not think it will be helpful to refer to any of those proposals in detail now because I personally believe, and that belief is shared by my colleagues here, that the best results will be achieved at this conference if the proposals of all the governments are dealt with first in committee, so that we may reach as high a measure of agreement as possible before proposals are presented for discussion to the conference as a whole.

The subject of taxation looms large before us. But that is only one of a number of subjects which require careful and highly specialized examination before they should be projected into general debate in an open conference.

While I do not for that reason propose to discuss in detail the re-allocation of taxing powers which must follow the termination of the present agreements, I would like to indicate the basic principles which I think should govern whatever decision is reached upon this subject.

I pause to say that when I say "I think" it means that the opinion I am expressing is one which represents the view of myself and my colleagues here.

If we accept the proposition that the provincial legislatures are to continue to exist as responsible bodies with full legislative powers over their own defined

fields of legislation, then those legislatures must have real and not merely nominal powers. The power to legislate and to govern rests upon the power to raise funds by taxation.

It is not merely the raising of money. It rests upon the power and the discretion and the way of raising the money required to carry on the business of government. The two most serious disturbances in the long history of Britain arose entirely out of questions as to who was responsible for the control of public funds.

The right to raise and control its own financial requirements according to the decision of its members has long been regarded as the hallmark of a free legislative body. Any arrangement therefore which provided for a centralized collection of the greater part of the tax requirements of provincial governments and made them mere annuitants of the central government would place the provincial governments under the control of the central government to an extent that meetings of the members of the legislature would become almost meaningless because of the limitations within which they would be called upon to legislate. If the provincial legislatures are to continue as free and responsible legislative bodies within the conception of the British North America Act, then it would seem clear that the provincial governments must have authority over their own taxation within clearly defined fields.

It is not merely a reallocation and redefinition of taxing powers which is required. It is equally necessary that there be a reallocation and redefinition of administrative obligations. That the Dominion Government has been called upon to assume enormously increased financial burdens goes without saying. But the obligations of the provincial governments have also been greatly increased. Just as the Dominion Government must have its position clarified so that it may be able to raise the necessary funds by taxation, so also must the taxing powers of the provincial governments be clearly established if they are to maintain their increasingly heavy burdens for social services, health, education and other matters of just as direct concern to our people as any of the subjects dealt with by the Dominion Government.

Much has been said about the need for amendments to the British North America Act. I am inclined to believe that most, if not all, of the problems with which we are now confronted can be solved by agreement rather than by amendment to our Constitution. If amendments to the Constitution should become necessary, it would seem that they can better be made as the result of experience in working out some readjusted plan of taxing and administrative authority by agreement. Even with all the statistical information available, it would be much more difficult to reach complete agreement in regard to amendments which would be binding upon succeeding governments than it would to give the proposals a test by definitive agreements which would achieve exactly the same results for the life of the agreements.

There is one fundamental weakness in the British North America Act which lies at the root of many of our difficulties. While the legislative powers of the Dominion and Provincial governments were defined with reasonable clarity, the division of taxing powers was left in a much less satisfactory position. The provinces were empowered to levy taxes in the field of direct taxation, as every one of us has so much reason to know, whereas the Dominion Government was authorized to raise money by any form of taxation. We therefore have the anomaly that, while the powers of the provincial governments have been extended by judicial interpretations of their statutory powers, the Dominion Government has found it necessary over the years to occupy more and more the only field of taxation which was made available to the provincial governments.

We may wonder why it was left in that position. At the time that the British North America Act was drafted, any difficulty on this score probably

did not even suggest itself. The budgets of the provincial governments, and for that matter of the Dominion Government, were relatively so small that the possibility of any serious difficulties arising from this overlapping of taxing powers apparently was not considered.

It may well be contended that the Dominion Government has the legal right to extend the scale of dominion taxation in any field. It would then be possible for the Dominion Government to levy direct taxes to any extent that would make it practically impossible for the provincial governments to raise the revenue necessary to perform their duties unless there were to be such duplication of taxation as would paralyze the economic life of the country.

But while it might be legally possible for the Dominion Government to extend direct taxation to such a point that they could completely blanket the only field of taxation open to the provincial governments, it need not be argued that such a result was never intended and that the very existence of the provincial legislatures and their governments under the British North America Act carries with it the implicit understanding that the Dominion Government will leave the field of direct taxation open to the provinces of such an extent as will make it possible for them to fulfil their obligations to the people.

I believe that if we approach this problem in a spirit of complete cooperation and good will, agreement can be reached defining and allocating the taxing powers of the Dominion and provincial governments on a workable basis.

After all, there is no legerdemain by which taxing powers can be reallocated so that one cent more or one cent less will be taken out of the pockets of the people to raise the total amount of taxation required. The taxes all come from the same people. It is only a question of reaching by agreement workable arrangements that maintain the benefits for every part of Canada and at the same time leave to the provincial governments that independence and vigor which enables them to carry out the obligations which have been imposed upon them, and which will be imposed upon them in even greater degree in the years ahead.

The definition and allocation of taxing powers is however inseparably associated with a definition and allocation of administrative authority, which has been affected by conditions arising out of the war just as much as taxation.

We were informed publicly, and the Premiers were informed by the letters they received, that this first meeting was to be of a preliminary nature. That I think is essential. After all, we have an accumulation of problems such as have been faced by no other governmental representatives since Confederation. Not even the Fathers of Confederation at any time were confronted by problems of the extent and magnitude, and in many ways the difficulty of solution, of those which confront us to-day, and therefore it is essential that we give to every aspect of those problems full consideration for we are all interested in achieving workable results as soon as possible, but I think at the same time we should also recognize that too great haste in seeking a solution of those problems may itself destroy the very purpose which each one of us has in meeting here, and that is their solution. Once we agree on the subjects to be discussed, it is necessary to examine each of those subjects from the point of view of each of the governments concerned.

Fortunately we are meeting here, not as the Fathers of Confederation did, without precedent, but we come here after seventy-five years and more of precedents for the course that we should follow.

This, I believe, is the twelfth Conference since Confederation. So far as my records show, there have been eleven previous conferences, and it may be interesting to recall that six of those eleven were interprovincial Conferences, not Dominion-Provincial Conferences, and that there have been five Dominion-Provincial Conferences. The first, in fact, of the Dominion-Provincial Conferences was held in 1918, although an earlier interprovincial Conference was

called by Sir Wilfrid Laurier. We can examine the record of those Conferences and we shall find that each one of those Conferences proceeded from the outset upon the same basis, and may I say further that so far as I am able to ascertain from the record, those Conferences proceeded on the same basis as the Conferences which preceded Confederation with such great success and which resulted in our being here to-day.

I think, therefore, that is why that we should recall what took place on every one of those occasions. The representatives of the provinces met—I doubt if on any previous occasion as many have met as are met here to-day—but they met and the Prime Minister of Canada, if it was a Dominion-Provincial Conference, or the Provincial Premier who had convened the Conference if it was an interprovincial Conference, opened the meeting and welcomed the delegates with appropriate remarks, and at that point the Conference was thrown open to consideration of the procedure which would best achieve the results desired by those attending.

On each occasion, in the Dominion-Provincial Conferences, each of the Premiers responded to the opening remarks of the Prime Minister, and in the case of the interprovincial Conferences the other Premiers responded to the welcome of the Premier who had invited them. So far as I can ascertain, on no single occasion did anything further occupy the attention of the delegates on the first day.

Then a committee, a steering or directing committee, was set up, usually made up of the heads of the governments, to determine the agenda, to decide upon procedure, and generally to lay the organization basis for the discussions that were to take place.

My own opinion is that there were extremely important reasons for following that course. In the very nature of things the representatives of different governments had little or no opportunity to meet in advance to discover how far they were in agreement or how far they were in disagreement, or how far they merely lacked information as to the others' points of view. It is clear from the recorded discussions that it was considered essential that the organization basis of the Conference be clearly laid by agreement amongst the representatives of the governments before any discussion was placed before the Conference as a whole—and for very obvious reasons, I think.

Having regard to the fact that the record is before us I should like to quote the statement of the present Prime Minister of Canada at the last Dominion-Provincial Conference because it indicates the general procedure that had been followed at Charlottetown, at Halifax, and most importantly at Quebec, where I believe for the two days the delegates discussed nothing else but agenda and procedure before any general discussion took place. These are the words of the present Prime Minister at the first Plenary Session of the Dominion-Provincial Conference in 1941:—

Right Hon. W. L. Mackenzie King: Gentlemen, we have now concluded the first part of the proceedings of the conference.

That was his welcome to the delegates and the responses of the Premiers of the provinces. He went on to say—

In calling the conference I sent a letter to the Premiers of the different provinces outlining the procedure which my colleagues and I believed might prove to be generally acceptable. I wish to make clear at this time that in so doing the purpose was that of so far as possible accommodating in advance delegates attending the conference. However, there was nothing arbitrary about the suggestions made. They were put forward tentatively, and with a view to giving all concerned an opportunity to consider them on their merits.

This morning I suggested that possibly progress would best be made if after concluding the addresses we have heard to-day the provincial

Premiers would meet with two of my colleagues and discuss with them the question of the further proceedings of the conference. That is to say, they would discuss the agenda to be followed from now on, the question of the meetings of committees to consider different aspects of the report, and the extent, if any, of publicity to be given to proceedings of committees.

That was the suggestion. Of course I am in the hands of the conference as to what may be regarded as the best means of arranging further proceedings. If the suggestion I have made meets with the approval of those who are seated at this table I would ask my colleagues Mr. Lapointe and Mr. Crerar to meet with the Premiers of the provinces either some time this evening or early tomorrow morning to consider the matters to which I have referred.

These gentlemen might then report back to the Conference concerning their decision with respect to further proceedings. If it is found necessary there can be further discussion here.

Should the statement presented to the Conference indicate unanimous agreement, or failing this, then that representing the views of a majority of the provinces, we would then be in a position to proceed in the manner indicated with the further consideration we wish to give to the questions before us.

That statement of the Prime Minister in regard to the procedure which he thought should best be followed at the last Conference was exactly the same procedure which had been followed at every preceding Conference, and I suggest that there are reasons too obvious for elaboration to indicate the continuing wisdom of that course.

I would remind you that one of the things that came up for discussion in the records of each of those Conferences was whether the agreements which the delegates had come together to reach could best be reached by open discussions or by closed discussions followed by an agreed-upon statement being given out afterwards of what had taken place.

I offer no comment at the moment as to which course it is wise to pursue but again I think it is perhaps worth recalling that, so far as I can find from the records of the eleven Conferences which have been held since Confederation, and of the Conferences held before Confederation, only one was held as an open Conference, and without referring to it any further I may say that it was not attended by conspicuous success. That was the last Conference. I do not suggest for a moment that the true facts are directly related, but at least it is not to be ignored that the Conference that gave us this nation—the Quebec Conference—and the Conference where Confederation was cradled at Charlottetown followed discussions which clearly pointed out the reasons why the delegates at that time thought they might more easily come to a basis of common agreement, by meeting privately rather than by having opinions projected into the open, opinions which perhaps at a subsequent date might easily have been modified the moment that some conflicting opinions had expressed themselves in the discussions of the Conference.

I merely recall that to indicate that that was one of the things that was decided. As one examines the records of these Conferences it will be seen that one of the things which came before the Conference for discussion and was decided by the open decision of the Conferences was what form the particular Conference was going to take and whether it was to be an open, public Conference entirely or whether it was to be partly open and partly closed, or whether it was to be entirely closed with a statement being given upon an agreed basis to the public by the Chairman of the Conference.

With all the precedents of successful Conferences behind us I cannot too strongly urge that in the interests of that agreement which is so vital for the

welfare of Canada we go no further to-day than to hear the responses of the provincial Premiers to the welcome of the Prime Minister of Canada and his observations as to the general basis upon which we should approach this Conference. Having heard those remarks we should then follow the clearly established precedent, the precedent that was followed on every earlier occasion, the precedent so clearly outlined by the present Prime Minister in 1914, and have a committee representative of all the governments—I suggest the heads of all the governments—meet to consider the subjects to be discussed, the sequence and manner in which they can best be introduced, the question of whether any publicity should be given to proposals before they have been considered by the committees and by the Conference, the extent to which each of the subjects should be dealt with by the committees before they are projected into the open conference and whether in fact any of the discussion should be reported or not. Again I say that that is not my opinion, I am merely presenting here the precedents of successful Conferences in the past.

In our desire for agreement I think we should be extremely cautious. In our desire to move speedily to a decision, in our desire to express our own points of view, in our desire to interpret the position of each or every government, we should not make it difficult for the other governments to come to agreement through a conciliatory and co-operative approach to the broad problems in the same way that the delegates did both before and since Confederation.

I shall elaborate no further on that point other than to express my very deep concern should we follow any other course. I do want to express my concern over the projection of any one point of view before the public through the medium of this Conference until the organization of the Conference itself has taken place and this Plenary Conference has decided how it wants things to be done. I can only repeat my concern that if that is done then the achievement of that ultimate, united purpose which I am convinced is paramount in the mind of each one of us may become increasingly difficult.

We are likely to find it difficult in any event in this period of transition to reach complete agreement. We are likely to find it extremely difficult in this period of transition from war to peace to draft anything in the nature of a new constitution. I think we will be best advised if we do our utmost to reach agreement as to the way in which we can make the existing constitution an efficient and smoothly-working instrument for the government of every part of Canada so that under our combined governmental system the greatest possible advantage may accrue to every Canadian, no matter where he lives. I think we will best perform this task if we divide our work into committees so that the ministers most experienced in each particular subject and the technical advisers associated with them may first digest the various proposals which will be made and bring back to the Conference a report as to the points upon which they are in agreement, and the essential differences in regard to any points upon which they are unable to agree.

If we reach complete agreement in the definition and allocation of taxing and administrative powers at the continuation of this Conference, when the committees are ready to make their reports, we will, I think, only have performed part of our task. The definitive relation between the governments is of vital importance, but I believe it is no more important than the functional relationships between the governments. It is just as necessary that we create some simple mechanism for integrating the legislative powers and administrative activities of the governments we represent as it is to define those duties and powers. The fact is that many of our present difficulties are more functional than definite and it was for that reason that the Ontario government proposed the setting up of a Dominion-Provincial Joint Planning Board.

No matter how clearly the taxing and administrative powers may be defined, in fact the more clearly they are defined it is certain that there will be an

increasing number of public activities of various kinds in which the Dominion and Provincial governments will of necessity have some joint interest and some joint operative responsibility.

This is particularly true in connection with the rehabilitation of our own veterans. As it has been suggested that this Conference should be known as the Dominion-Provincial Conference on Reconstruction I think that anything that relates to rehabilitation and reconstruction is particularly in our thoughts. Veterans affairs, strictly as veterans affairs, are entirely under the authority of the Dominion government. However, the moment the veteran is out of the army he becomes a civilian and the provincial governments are responsible for the wide scope of his property and civil rights.

Then we have the case of rehabilitation training. The actual cost of most of such training comes from the dominion treasury, but the schools where the training is given are under the provincial departments of education. I use this as an illustration of the provincial aspects of this relationship which we must consider. So it is with university courses. The Dominion government has undertaken to give veterans a university education under certain stated terms, but the provincial Departments of Education must assure the facilities for giving that education. I could multiply illustrations of this kind indefinitely. That functional relationship between the governments will extend through the programmes of rehabilitation, reconstruction and almost every phase of our expanding development. For that reason I think it is essential that there be a continuing organization with a permanent secretariat here in Ottawa. We suggested the name "Dominion-Provincial Joint Planning Board". But we are not greatly concerned with the name. It might be well called the "Dominion-Provincial Co-ordinating Council" or any similar name. The important thing is that there be an organization in existence to assure the quick despatch of business and the quick solution of problems arising between governments. This is particularly true in regard to veterans.

One of the ministers here is fully aware of a decision which has been reached in connection with this important question. I shall not elaborate at the moment upon this but it is of utmost concern to the veteran and it will involve extended discussions between governments. This would have been greatly assisted had there been some functional organization such as that which I have described. It is the intention in any event of the government of Ontario to have our own office here in Ottawa. Of course, I do not mean within the confines of the buildings here, but it is our intention to have our own office here in Ottawa with the essential records. It is our intention to designate one minister who will be responsible for Dominion-Provincial relations and who will spend much of his time in Ottawa in connection with this work. I merely mention this as an indication of the importance we attach to this functional aspect, no matter how it may be worked out.

Such a board or council would keep each of the governments in touch with the developments of common concern and through experience would develop an efficient mechanism for obtaining quick decisions in regard to matters involving different departments of the different governments. It would also be a clearing house for ideas between provinces so that a plan which had been worked out satisfactorily between any single provincial government and the Dominion government might be passed on to the advantage of other provincial governments as well. Very often, as other representatives of the government know, something that has worked out excellently comes to our attention only after it has been in operation for some time.

Such an organization with a permanent secretariat would offer much greater assurance of success to Dominion-Provincial Conferences than has ever existed

in the past. The subjects to be discussed could be carefully canvassed in advance and the essential statistical information prepared so that all governments might be ready to make their decisions when they meet.

Another reason why I think such an organization to maintain the functional relationship between the governments is so vitally important is that all governments are going to be called upon to play their part in stimulating and organizing the export business of this country upon which our future prosperity will so largely depend. Let none of us be mistaken, the provincial governments are going to be called upon to have a great deal to do with the ultimate success of our export business which is vital to every measure concerning prosperity and security which we attempt to put on our statute books. With our constitutional authority over property and civil rights, the very operation of those businesses, of those enterprises of the forests, and the farm and of all other activities throughout the country will be largely governed by the wisdom or otherwise of the provincial legislation which controls property and civil rights within the community.

All the social measures and assurances of personal security which results from our joint action must in the end be based upon productive power. There is no other source of ultimate security. It is essential that we work and completely and harmoniously together in every field of production so that domestic and export business upon which employment depends can be maintained.

Therefore, I strongly urge at this Conference that the organization committee consider the best way of projecting this subject into the conference in a way in which it can best be opened for discussion.

The comments I have made in regard to the creation of this organization will also indicate my belief that Conferences should be held much more frequently. I think that one of the things that perhaps creates difficulties in these Conferences is some sense of rigidity or the lapse of time in the calling of Conferences. If there was more continuity I think these Conferences would be much more likely to attain full success when they are called.

In the years ahead and considering the extent of the problems that we have, I think that Conferences of this nature should be held at least once a year, perhaps not necessarily always in Ottawa.

As I said before, I strongly urge that no attempt be made to project controversial details before this Conference until committees representative of all the governments have had an opportunity to consider them and to exchange opinions which may result in complete agreement where otherwise there might be misunderstanding. I urge again the wisdom of following the precedents of the past and after hearing the observations of the provincial Premiers setting up an organizing or planning committee such as has always been formed in the past.

I want to close these remarks with an assurance to everyone here that the delegates from Ontario come here with open minds on every subject to be discussed. We have definite proposals to make, but we are anxious to exchange opinions and will co-operate to the very limit in establishing a sound basis for the social and economic welfare of the whole country. We are Canadians first, last and all the time. That is the spirit in which we will meet the tasks before us.

Mr. MACKENZIE KING: Before we hear from the Premier of the province of Quebec may I say just a word about the question of procedure which has been raised by Mr. Drew. When the Premier of Ontario rose to speak I assumed he was simply rising to respond to the words of welcome which I had extended to this gathering. Therefore, I did not interrupt him to ask whether it was his intention at the moment to do that, or whether he was intending to present at this time the proposals of the government of Ontario.

Of course it has been understood that the entire procedure of the Conference is a matter for arrangement among ourselves. It had been my intention when the Premiers of the several provinces had responded to the words of greeting to call upon my colleague, the Minister of Justice (Mr. St. Laurent) who is the Chairman of the Cabinet Committee on Dominion-Provincial Relations, to express or to give to the Conference what we had thought might be the most expeditious and helpful way of proceeding with a view to initiating discussion on procedure if that were desired.

I should like to say to the Conference at once that we have no desire in any way to do other than follow the excellent precedents which have been referred to by the Premier of Ontario. Any step that we have taken or announced has been taken or announced simply in the nature of a course of procedure which we thought would help to expedite the proceedings. The Minister of Justice had intended to say to the Conference that we proposed to proceed as the Premier of Ontario has suggested, that is, we should proceed by having our discussions in committee before there was any public discussion or any further discussion on the part of the Conference as a plenary body.

The one point of possible difference, if there is any such, as to the best course of proceeding was whether before the steering committee was appointed there should be read to the conference the proposals of the Dominion government and the proposals of the several provinces. My understanding is that when the invitation was extended to the provinces it was intimated that the Dominion government would have certain proposals to put before the Conference and that the government would welcome proposals which the provinces would wish to put before the conference. We had thought that such having been the course which was proposed, and as I thought agreed to, that the Conference would wish to have before all else a statement of the proposals of the different governments placed on the table, and the proposals available to the committees for discussion.

It is, of course, open to each one present to intimate what he feels should from now on be the procedure. I would point out that in the course of the remarks of the Premier of Ontario he has given to us, if I understood aright, a considerable preview of the proposals which the Ontario government would make. If that is so, I would think that the Premiers of the other provinces should also be entitled to have the proposals which they intend to make presented before the committees are set up. There would certainly be no thought of having any discussion on them at the present time. But I feel that the Premiers of the provinces will wish to have their proposals known at least to the same extent as the Premier of Ontario has outlined the proposals of his government. I do not know whether the Premier of Ontario has a separate statement to make on the proposals of his government. If that is the case, there would be of course further opportunity for him to present those proposals at that time.

The procedure which we thought would be most convenient and expeditious is, as I have said, that Mr. St. Laurent should announce, after a few introductory remarks by myself and responses by the Premiers of the different provinces, that the Dominion would present its proposals to be followed by proposals of the several provinces. Immediately thereafter a steering committee would be appointed and would decide the course to be followed from then on.

Before I ask Mr. St. Laurent to speak on the course which we had in mind, perhaps I should permit the other Premiers to follow the Premier of Ontario in response to the words of greeting which I have expressed. We might then decide whether it is desirable to have the proposals of the governments read in the manner to which I have referred before the steering committee is appointed, or whether the Premiers present would prefer to have the steering committee appointed in the first instance and the proposals of the several governments delayed until after that has taken place.

Hon. GEORGE DREW: I do not want to interrupt the course of the remarks, but I do think that I should clarify one point so that there may be no misunderstanding. I did not make the proposals on behalf of the Ontario government, and I do not think my remarks clearly indicated that. If I am open to criticism I think perhaps it may be on the extent to which I emphasized my belief that the proposals should not now be placed before the Conference; that before we have any specific proposals open for public discussion we should know how the Conference is to proceed. I feel sure that an examination of my remarks will clearly indicate that I dealt only with the general basis and principles which I thought should guide the formulation of our agenda and the organization. I was not thinking of the functional, administrative or definitive aspect of it, but was merely putting it forward as an indication of what I felt should be before the organizing committee as the basis of our consideration. My remarks should not in any way be taken as a statement of the detailed proposals of the Ontario government.

Mr. MACKENZIE KING: The Premier of Ontario will perhaps allow me to say that in considering the course that would be most helpful we carefully reviewed the communications received from the Premiers of the different provinces, and we sought to take the course which the several communications we have received indicated would be the one that would meet with general acceptance. I am sure Mr. Drew will not mind if I read to him and to others present the letter which he sent to me on June 28, 1945. It is as follows:—

Office of the Prime Minister and
President of the Council

Toronto, June 28, 1945.

Right Hon. W. L. Mackenzie King, P.C., M.P.,
Prime Minister of Canada,
House of Commons,
Ottawa.

Dear Mr. Prime Minister:

This will acknowledge your letter informing me that the Dominion Government has decided to convene a Dominion-Provincial Conference in Ottawa on August 6.

The Ontario Government welcomes the announcement that the Conference which we proposed a year and a half ago will now take place. We will be fully represented at the Conference.

You state that the Dominion Government intends to place before the Conference a number of proposals. The Ontario Government will do the same and I assume the Governments of the other provinces will do likewise. It will then be possible to decide upon the procedure to be followed.

Yours sincerely,

(Sgd) George A. Drew

Mr. DREW: I do not wish to continue this discussion because my only purpose is cooperation. But I would like to point that all I was doing was indicating our willingness to attend, that we would be here prepared to attend the Conference, and also that when we met we would be able to carry on regardless of the definition or wording of any communication. I want to emphasize that we withhold the placing of any recommendations publicly before this conference until the matter has been discussed in committee so that we may have assurance of success in the deliberations which will follow.

Hon. M. L. DUPLESSIS (*Premier of Quebec*):

Monsieur le premier ministre du Canada,

Messieurs les premiers ministres des provinces,

Messieurs les délégués:

Il convient, et cela n'est que juste, qu'au début de cette conférence fédérale-provinciale je fasse entendre la langue de la majorité de la province que je représente, la langue de ceux qui ont joué un rôle si glorieux et si grand dans l'édification de ce pays et même d'une partie importante de l'Amérique.

Je ne suis pas ici comme chef d'un parti politique et je ne viens pas rencontrer des chefs de partis politiques, je suis ici comme canadien à la tête d'un gouvernement provincial, parlant et désirant agir comme premier ministre d'une province et pour discuter des questions, avec les autres premiers ministres des autres provinces et le premier ministre du Canada, simplement du point de vue canadien, du point de vue constitutionnel, sans aucune allusion à la partisanerie, sans aucune considération de parti.

La province de Québec est heureuse de participer à cette conférence; la province de Québec a toujours été et sera toujours un actif dans la confédération canadienne. Mais nous croyons à la confédération canadienne. Nous sommes opposés à la centralisation du pouvoir. Nous considérons que l'Acte de l'Amérique Britannique du Nord est un contrat qui a été ratifié par le parlement de Westminster, qui a toujours gardé son caractère contractuel et qu'il ne peut être amendé que par le consentement des parties. Nous considérons que les provinces ont certains pouvoirs exclusifs qu'elles ont le droit de conserver. Les quelques réclamations que nous faisons ne sont pas simplement l'écho de la voix de Québec, mais elles reflètent en même temps le désir que nous avons de respecter le pacte fédératif à l'endroit de toutes les provinces et du pays.

Nous sommes ici pour collaborer et pour coopérer. La coopération et la collaboration ne pourront jamais exister s'il y a mépris des engagements sacrés et violation des pactes. Il y a des moyens constitutionnels, des méthodes constitutionnelles pour arriver à l'entente que nous désirons et que nous souhaitons et à la réalisation de laquelle nous allons nous employer de notre mieux. En d'autres termes, coopérons et collaborons toujours dans l'intérêt du pays conformément aux droits de chacun, ayant toujours en vue le progrès du pays en général et des provinces en particulier.

Mr. Prime Minister, I am here to-day as one of the parents who gave birth to the federal government. The federal government is the child of the provincial governments; and we hope that the child will never undertake the absorption of the mother.

I am not here as the leader of a party; I am not here to meet the leaders of provincial or federal authorities. I am here as a Canadian, first, last and always, as the representative of a province participating in a friendly gathering with the representatives of other provinces and with the members of the federal government. Rest assured that the Province of Quebec sincerely wishes to collaborate and co-operate with all. There are many ways to co-operate and collaborate. Let us study and find out the best and agree to adopt the best.

There can be no collaboration and no co-operation if there is absorption of power, if certain basic principles are discarded or put aside. It is the considered opinion of the Province of Quebec that the British North America Act is a compact having all the character of a contract and consequently cannot be modified or amended without the full consent of the contracting parties.

It is our considered opinion that an accumulation of powers leads to autocracy. We had an example of that in Europe. I may add right here in case it is not known that nowhere in Canada, nowhere in the world was Hitler more hated and despised than in the Province of Quebec. Nowhere was the victory of the Allies so well received as in the Province of Quebec. Hitler was

the model of centralization. Centralization always leads to Hitlerism. We cannot centralize. We are for collaboration and co-operation. We consider that in the turmoil of to-day it would be harder to do a good job than it was when the Fathers of Confederation representing the two great parties of the time decided to create the Confederation.

We know that the central government requires certain things; we know that some changes which are desirable could be made, but we do not think that changing the good reputation of Canada would help. The absorption of governments by Canada would create a situation which would put Canada in the position of matching Hitlerism. I do not think that is a change which would be desirable. There should be, according to some people, a distribution of taxing power. We have an open mind. We are willing to do everything humanly possible within the framework of the constitution. We are asking for no favours; we are asking for no privileges; we are asking for justice for ourselves and for everybody concerned in this great country of ours.

What is the best way to remedy the situation? What is the best way to tackle and try to solve the problems of to-day? We can discuss that in a friendly spirit and we are willing and anxious to do it; but it must be clearly understood from the outset that on fundamentals there can be no compromise, there will not be any compromise. We think that provincial legislatures are essential to the well-being of Canada; we think they are essential to real Canadian unity. We think they are essential to the well-being of the population. Gentlemen, thinking that they are essential it goes without saying the legislative powers which were granted to the provincial legislatures cannot be exercised without financial authority. ~~We~~ We need financial authority not only to solve the problems of to-day but the problems of to-morrow. We want to do this, and I am sure that everybody else wants to do it, to get together in a real Canadian friendly spirit without any political bias or political consideration. We want to sit around a table and discuss openly and friendly the problems that confront us and have a frank and complete exchange of views. After all, that is the best way to build in an enduring manner. I really think it is possible for us to do some good to-day for our people.

To use a term that has been used a lot during this war, the highest priority should be given to respecting contracts, to decentralization and to the rights of everybody. With this in mind, Mr. Prime Minister and gentlemen, you may rest assured that you have in Quebec friends, Canadians, as you are, wishing with all their soul and heart that the weal and the prosperity and the progress of this great country of ours will be uppermost in our minds and that we are willing to deliberate along those lines.

Hon. A. S. MACMILLAN (*Premier of Nova Scotia*): Mr. Prime Minister, my remarks will be very brief this morning. This Conference has taken a somewhat different turn from what I had anticipated. I have not prepared and do not propose to set forth the proposals of the Province of Nova Scotia at this time. I want to say, however, to the Prime Minister and to you gentlemen that we are pleased indeed to be here represented at this Conference called by the Dominion Government for a purpose in which we are all definitely and directly interested.

I wish to extend greetings from that old Province of Nova Scotia to the Government of Canada and to the Governments of the various provinces represented here to-day. I had thought on reading the Press, and I had nothing definite other than what I saw in the Press, that the procedure would be as suggested by the Prime Minister; that after hearing the address we would then hear from the various ministers what their proposals were with respect to post-war rehabilitation in so far as their departments were concerned.

For the last year or more I have been asked every day: "What are you proposing to do for our returned men? What are your proposals with respect to those who have lost their positions through the closing down of war industries?"—and other questions along that line. My answer has always been that we propose to co-operate and collaborate with the Dominion of Canada, and therefore it is necessary that we should have some idea of what the Dominion's proposals are before I or anybody else can answer the many questions that are asked us from time to time.

It was that information which I expected to get this morning at this Conference. I expected that after listening to the remarks of the various ministers I would consult with my colleagues and decide what I should say with respect to the Province of Nova Scotia, and what its attitude should be with respect to those things which we believe should come out of this Conference.

All I wish to say at this time is that the government of the Province of Nova Scotia is prepared to co-operate in every possible way with the other governments represented here in anything which it deems to be in the best interests of the people of Canada as a whole.

I have noted the remarks made here this morning by the Premier of Quebec and the Premier of Ontario. They are definitely opposed to centralization. Their statements are very welcome, I am sure, to the Maritime Provinces because one of the grievances which the Maritime Provinces have to-day is that there is too much centralization. Only during the past year the Province of Nova Scotia has lost two very important industries which, evidently believing in centralization, have moved their plants to central Canada. But now that we have had these definite statements from the Premiers of the two great provinces of Ontario and Quebec we hope that we shall have no more of this centralization of industries or that at least we shall be able to hold the industries we now have.

I just want to say this in conclusion. When we attended the Conference of 1941 we came here with the full intention of seeing the thing through, and we were disappointed at the turn which things took at that time. I hope I am sure, that that will not happen this time, now that we have had clear-cut statements from the Premiers of the two greater provinces of Canada that they are going to co-operate one hundred per cent with the weaker provinces such as Nova Scotia and I am sure that the Premier of New Brunswick and the Premier of Prince Edward Island will not object to my including those with the weaker provinces. We are in entire sympathy with what has been said on decentralization by the Premiers of the two great provinces of Canada where from seventy-five to eighty-five per cent, I believe, of all the industries of Canada are centralized. That is one of the subjects I propose to deal with when I speak a little later on. However, as I said before, I do not propose to go into any details now. I propose to listen to what the Ministers of the Dominion Government have to say, to hear their proposals, and then later I propose to place before this Conference the proposals of the government of the Province of Nova Scotia. I thank you.

Hon. J. B. McNAIR (*Premier of New Brunswick*): Mr. Prime Minister and Gentlemen: I wish to say at the outset that we from New Brunswick welcome the privilege of being present at this Conference. We have very distinct and vivid recollections of the Conference called in 1941, to which reference has been made this morning. That Conference which was called to study the report of the Royal Commission on Dominion-Provincial Relations, unfortunately, due to the unbending attitudes of some participants, early collapsed. We have come to lend our utmost effort for the success of this Conference.

It should be recognized that this gathering presents a variegated political complexion. From the provinces representatives of nine governments, represent-

ing various schools of political thought, have assembled. Our purposes, however, are, or should be, the same—each to do his bit in nation building. Out of our diversity may come great strength; our success prove another triumph of democracy.

I would like to touch upon the matter of procedure which has been raised by the Premier of Ontario. I recall that at the 1941 Conference the same point seemed likely to arise. It was suggested in certain quarters that the discussions should be public. My colleagues and I are very definitely of the opinion that when this plenary session of the Conference concludes, our discussions and studies should be held in private. Such procedure will, I am sure, lead to greater intimacy and freedom of discussion and to better results than could otherwise be obtained.

I assume that no responsible person in the Dominion really believes that the Union can, or should, be dissolved. The people of Canada, scattered throughout the nine provinces, will, regardless of what is said or done here, continue to live together. That being so we should, I submit, lend our efforts to foster more harmonious relationships, a deeper understanding, a more balanced economic and social structure and greater unity within the nation than have at times marked its path in the past.

The days in which we meet constitute for us alike an inspiration and a challenge. With the world at large we in Canada have been passing through the greatest crisis in human history. The price paid for false ideals and faulty leadership, and for their overthrow, has been heavy. It is a matter of pride that our country has again risen to the full height of her responsibilities.

Forty thousand of our youth have added their graves to those of the sixty thousand who, at the end of World War I, slept in foreign soil. Tens of millions have died throughout the world that we might, among our other rights, have the democratic privilege of meeting at this time as representatives of a free nation. Doubtless, if so minded, we can find much to divide us. But under the stimulus of those sacrifices we should be minded, each according to his capacity, to seek new levels in statecraft, determined to shape a course which will prove an example for others in nation and world building.

Just the other day the Conference of the United Nations ended at San Francisco. Its purpose was to lay foundations for international stability, human security and world peace. It called for understanding, co-operation and good-will between the fifty participating nations. Our work calls for similar qualities and attitudes. In Canada can be found all the elements which twice in our generation have operated to tear the world apart,—matters of race and creed, geographical distinctions, cultural differences, social and economic diversities. They are rich in potentialities for division and distrust. If, in our own Canadian household, the leadership of our day is unable to resolve its problems what chance have the nations of the world to succeed in the larger task?

I suggest that in our work here, we should feel that the eyes—if not of the world—at least of many neighbours are upon us. We cannot afford to let this Conference fail.

Our country is now passing into the period of transition from a war to a peacetime economy. We all hope, and pray, that the process will shortly, with victory in the East, be greatly hastened. All during the war there has been much talk in this country, as elsewhere, of a new social and economic order.

That subject, with all that is involved in national reorganization and reconstruction, is of more than ordinary concern to the people of my province. The need for social and economic improvement existed long before the outbreak of hostilities.

For a variety of reasons the provincial economy has for a long period of time been in a depressed state. The forces which have caused this condition are quite beyond the control of the province. Geography, national policy and monopolistic competition from other parts of Canada have been basic contributing factors.

Except for a brief period during the late depression, when the Prairie sections were particularly hard hit, the per capita income of New Brunswick has been, with the exception of one province, the lowest in Canada. While our internal situation has improved during the war, there is nothing to indicate that our relative position within Confederation is any better. A more equitable share of the national income is for us a vital matter.

This statement of our position is in line with the views of the Royal Commission on Dominion-Provincial Relations, expressed as follows:

New Brunswick shares with Nova Scotia the unhappy distinction of the longest unfavourable economic history of any Canadian Province. (Report, Book 2, page 91).

Earlier in their report the Commission pointed out this:

The general effect of national policies has been to accelerate the natural shift of industry and finance, and of concentration of wealth and income, to Central Canada. (Report, Book 1, page 190).

The remedies for such conditions lie primarily with the federal authorities, which under the Constitution have exclusive jurisdiction in all matters of national importance, including such items as tariffs, freight rates, international and interprovincial trade, credit, exchange and monetary policy. These are subject-matter of fundamental concern to the primary industries upon which the welfare of the people of New Brunswick chiefly depends.

So far as post-war planning is concerned our essential aims are those common to all Canada. They are:

- (1) Employment, with reasonable returns for their labour, for all our people who are able and willing to work;
- (2) Improved educational facilities and enlarged educational opportunities; and
- (3) Social and welfare services comparable to those obtaining elsewhere.

Since the economy of New Brunswick is based on its natural resources, the well-being of our people depends in large measure upon the healthy condition of the primary industries—forestry, farming, fishing and mining. To these should be added the tourist industry.

It is not my intention at this point in our proceedings to suggest specific policies or measures to improve conditions in New Brunswick. I feel that such is more proper subject-matter for the subconference or committee stage, when the members of my cabinet and their advisers will be participating. I shall content myself now with touching upon one or two matters of more general significance.

First may I observe that the maintenance of the national income at a high level is recognized as a prime national objective. In any planning for the future its more even distribution on a regional basis should receive foremost consideration. It will be entirely unsatisfactory to New Brunswick to have the present disproportion or unbalance stabilized or frozen.

The extent of the national income is dependent upon the production of goods and services along with construction and other works projects, supplemented by social security measures. Due to the fact that the bulk of our population in New Brunswick is engaged in the primary industries, the per capita income is, as has been pointed out, relatively low. One effective method of raising the scale would be by increasing the flow of money through public spending.

The benefits which would result from better highways and other transportation facilities, forest motor roads, wider electric power services, land reclamation, flood control, the development of national parks and other tourist facilities would be reflected not alone in increased buying power but in economies for our producers, greater efficiency in production and improved methods and practices in the conservation and utilization of our natural resources. Such expenditures would also permit a fuller development of the tourist industry for which our province excels, and which may readily be made a business of major proportions.

The financing of such a programme is for us a matter of grave concern.

Having carried the bulk of unemployment costs during the depression years, first under the dole system and later through public works programmes, the province is unable, out of its own financial resources, to assume new burdens of the nature indicated—except at such sacrifices in lessened social, educational and welfare services as could not be tolerated.

In this connection I would remind the Conference that the Commission on Dominion-Provincial Relations made very sweeping recommendations in our case for federal assistance, in the following language:

New Brunswick (Province and municipalities) is at present spending little more than half what the Commission estimated would be necessary to bring its education and public welfare services to the real (although not dollar) national per capita average. The explanation of this is found in New Brunswick's lack of taxable capacity, and in the heavy drain of its unproductive debt burden. Consequently, although 1,300,000 under the general provisions of the Plan, the Commission recommends an annual National Adjustment Grant of \$1,500,000. This is chiefly to make provision for increased expenditure on education and public welfare (in approximately equal parts) but some allowance has also been made for a moderate expansion in public domain and developmental expenditures. The resulting surplus, which is expected to provide for expanded educational, welfare, and to a small extent, developmental services, is large in relation to total current expenditures, but not in relation to New Brunswick's needs if the government of that province is to be put in a position to supply the average Canadian standard of social services and education to its citizens. (Book 2, p. 92).

May I here observe that any representations being made in the present connection on behalf of the provincial authorities apply with equal force to the municipalities and other local governing bodies.

The Financial Plan recommended by the Commission for New Brunswick was enlarged in later studies made in preparation for the Conference of the Dominion and the Provinces called to consider the Report in January, 1941. As so extended its implementation would have improved our financial position by nearly 4 millions of dollars, to be used to bring the services mentioned up to the average standard existing throughout Canada.

This estimate of our requirements was based upon costs considerably lower than those prevailing to-day, and on the assumption that other services could be maintained on a normal basis.

That statement of our fiscal need indicates that much is required by way of increased subsidies, grants-in-aid or in some other form of assistance if the people of New Brunswick are to enjoy, at an appropriate level, the public services which to-day are considered throughout Canada as normal requirements.

It will serve also to indicate the effect on our social and educational services, and the sacrifices which would be required of the people of New Brunswick, if the province were obliged to assume the burden of a post-war reconstruction programme suitable to its needs.

Here I would remind the Conference of another principle laid down by the Royal Commission. It has a direct bearing on the present matter. I quote their language as follows:

When as a result of national policy undertaken in the general interest, one region is enriched and others impoverished it would appear that there is some obligation, if not to redress the balance, at least to provide for the victims; and policies of taxation and public expenditures offer a convenient means.

In the light of our circumstances it must be evident that the financing of any public works or other developmental programme and the improvement of our services generally require active and substantial assistance from the federal authorities.

There is nothing novel in that suggestion. At the time of Confederation the right of the people in the several provinces to have their local services guaranteed or underwritten by the national treasury was conceded. It was recognized that the Dominion was obtaining the main sources of revenue and the right to exploit all fields of taxation. Subsidies based on population and grants in aid of civil government were arranged for the provinces. The sums then fixed were considered adequate to permit the provinces to carry on their governmental services, according to the standards of the day, on a uniform basis.

Great changes have since taken place in the scope of public business. Services never dreamed of by the founders of Confederation have become the concern of governments. The field of public administration is still growing, at an accelerated pace.

Had the provinces enjoyed the same even economic development they might well be left to their own devices in public financing. Such, unfortunately for us in New Brunswick, and I might say the maritimes, has not been the case. As I understand it we are here to find remedies to meet that situation.

To avoid misunderstanding let me affirm an unfaltering belief in the wisdom of those responsible for Confederation and in our federal system of government. A rational distribution of legislative and executive power in our land is as necessary to-day, to our mixed social, cultural and political situation, as at any time in our history. While admitting that, with the lapse of time and the growth in governmental functions, some adjustments in jurisdiction between the Dominion and the provinces may be necessary or advisable, I believe that for the most part present day problems can be solved within the framework of the constitution. I question the wisdom of those who would approach an adjustment of Dominion-Provincial relations, and the tasks of reconstruction, with a blueprint calling for a wholesale re-writing of the British North America Act. Such is to my mind unnecessary; to attempt it, unwise.

On the other hand one should not recognize provincial autonomy, so-called, as an end in itself. It may easily become a fetish, a catch-cry, or a cloak for regional, or sectional, advantage and privilege. The primary end of all government in Canada is the welfare of the people, theirs the sovereign interest. If we are minded to build a strong and virile nation none of us can ignore the needs and welfare of all Canadians, in whatever province they may be found. This involves, of course, due protection for certain minority rights.

We, in New Brunswick ask for no privileges, benefits or advantages that we are not prepared to share with our fellow-Canadians. We feel it is proper to expect reciprocal treatment.

I am quite hopeful that much may be accomplished, at this Conference, through general agreement, to promote the interests of all the people of Canada on a basis of equity, fairness and fair play. That method is altogether desirable.

At the same time I feel constrained to say that in my view the destinies and fortunes of those I represent should not be made to rest upon the actions or attitudes of a government or governments having no jurisdiction over their affairs nor responsibility therefor.

In short, the people of New Brunswick will not be content to pin their ultimate hopes for correction of the disadvantages under which they have long been suffering on the sole prospect of reaching final conclusions on all material matters in a gathering as complex as this Conference.

And holding the view that, widely speaking, our needs are financial and that our social and economic problems can be solved within the present framework of the Constitution, I do not think that the need for unanimity of decision is absolute—desirable as it unquestionably is from a broad Canadian viewpoint.

Let it be remembered again that the control of all matters national in their scope and which affect most vitally the social and economic well-being of the people in the provinces, is now vested in the central government. I have already mentioned the main items. The chronic unbalance in the Canadian economy with the heavy concentration of industrial, commercial and financial power in certain favoured areas, is due to the play of forces under the control of the Dominion parliament and government, since Confederation. That situation is capable of being remedied, and only remedied, through national policy.

Unquestionably too there is an extensive field in which the Dominion and provinces can alike function. By the express language of the British North America Act, concurrent jurisdiction is given them over agriculture and immigration. Apart from this, the recent adoption of the family allowances plan indicates how widely the Dominion may proceed in the implementation of social security measures which the provinces individually might themselves adopt, if financially able.

On the other hand, there are numerous matters over which the provinces have an unquestionable exclusive jurisdiction. Governmental services in relation to them are constantly expanding. The costs of administration are continually growing. With our restricted economic development in New Brunswick, our problem is to finance such services, to the end that our people may enjoy them on a scale commensurate with what prevails in other sections of Canada.

Here again the Dominion has adequate power to meet the needs of our provinces, as well as others. With its control of monetary policy, and the broad and unlimited powers of taxation it possesses, the Dominion is in a position, drawing upon the resources and tax-bearing capacity of the whole nation, to see to it that the provinces are placed in a position to maintain their local services at appropriate and uniform Canadian levels. No constitutional amendment is necessary to bring about that measure of justice.

It would, I feel, be not out of place in this connection to remind the Conference that in the present war, as in the last, the people of New Brunswick have a record second to none in Canada. Every objective set for them has been achieved, and surpassed war lending, food production, voluntary enlistments, and so on.

For those thousands, out of New Brunswick homes, who fought in the skies of Europe and other air fronts, who maintained their long vigils on the Atlantic, who carried the name of Canada across the plains of Sicily, up the slopes and through the mud of Italy, over the beaches of Normandy, and along the hard way to Berlin, one must require a fair measure of Canadian justice. Apart from all other considerations, I would be remiss in my duty should I fail now to record a demand that action be taken to give to the province to which they are returning its proper place in the national household.

I believe that the first attempt at a readjustment of the financial relations of New Brunswick with the Dominion followed the Report of the Duncan Commission in 1927. As a result of those findings, supplemented a few years later by the recommendations of the White Commission, an additional sum of \$900,000 was made available to New Brunswick to finance the provincial services. This limited assistance proved entirely inadequate to raise the standard of services to the average Canadian level.

It was in order to meet the financial situation confronting some of the provinces that the Dominion government in 1937 appointed the Royal Commission, repeatedly referred to, to study the necessities of the situation and make recommendations for better financial arrangements between the Dominion and the provinces, having in mind the responsibilities of the latter.

As a result of events following the report of the Commission, well known to all of us, negotiations took place between the Dominion and the provinces which culminated in the tax agreements of 1942. Under those agreements the provinces have been receiving certain annual sums to compensate them for their loss of revenue in abandoning temporarily certain tax fields.

The compensation payable to New Brunswick, and its municipalities, was based on the amount of income and corporation taxes collected by them in 1940, plus a small fiscal need subsidy of \$300,000 for the provincial treasury. That agreement, according to the general plan, will terminate shortly after the end of the present war.

In view of the present budgetary position of the province, I urge that immediate consideration be given to an early revision of our agreement, with a view to meeting the rising costs, and the needs, of our services generally.

My main point, however, is that the plan of operation which brought about the existing financial arrangements between the Dominion and the provinces may well prove the pattern of action in the post-war period. It can make possible the negotiation of proper financial terms between the Dominion and the provinces, acting in concert if so minded, separately should occasion require it. It can be employed to implement the spirit, and in reasonable measure the letter, of the financial recommendations of the Rowell-Sirois Report.

All these matters, and obviously a wealth of other suggestions, will, I assume be under study at this Conference. They should be viewed in no narrow or sectional way; but with the thought ever in mind that if our country is to measure up to her strategic position among the nations, particularly those of the English-speaking denomination, there must be justice and fairness for all her people, regardless of locality. In short, we must seek to develop in the hearts of the people of Canada a feeling of oneness, a sense of nationhood.

I am reminded of words used by a great Britisher, then Governor-General of Canada, spoken after his astute and far-seeing mind had sensed our Canadian situation and weighed its needs. This is a declaration uttered by the late Lord Tweedsmuir in 1937:

Canada is a sovereign nation and cannot take her attitude docilely from Britain, or from the United States, or from anybody else. A Canadian's first loyalty is not to the British Commonwealth of Nations but to Canada and to Canada's King and those who deny this are doing a great disservice to the Commonwealth.

In concluding I submit that we should all sedulously seek to promote in this country a feeling of national pride, a belief in the greatness of our nation, a sense of common destiny, a spirit of true Canadianism, to the end that the forces of bigotry, sectionalism and prejudice may lose their power among us. The instruments for our purpose must continue to be the homespun virtues—tolerance, good-will, neighbourliness, charity, moderation, fair play, the practice of the golden rule.

We have had an example set for us in our present business. It is fresh before us. I allude to the action of the present generation of Canadian youth who, in their hundreds of thousands, voluntarily offered themselves in this war that mankind might have liberty and this land might be free.

I like to think of the words of one of them, a gallant son of Canada from the province of Quebec, who by participation with his compatriots therein learned of the real sacrifice of war, who knows the spiritual and moral forces which lead men into the jaws of death that others may live in freedom. This is what, out of the wealth of his experience, he said after returning to Canada:

We landed on the shores of Dieppe not thinking of our faith; not thinking of our tongue, nor of tradition; we went there thinking of Canada, our country, which we were seeking to defend and the cause of freedom we were championing at that time.

We have had our domestic controversies, some internal confusion during the war. Yet Canada has come through it all with few, if any, scars upon the body politic; certainly with none that we cannot afford to forget. Now we are supposed to be moving forward into a new era dedicated to the maintenance of the four freedoms and certain allied concepts.

For the second time in one generation young Canada has offered its youth with all that youth holds dear, life itself, that peace and good-will may reign among the nations and in the hearts of their peoples. Their action is our challenge.

How then shall we approach our tasks of leadership? May I here borrow the language of a great American addressed to his people as his country, under his leadership, was emerging from a great civil war? With this I close:

These are his words:

With malice toward none, with charity for all, with firmness in the right, as God gives us to see the right, let us strive on to finish the work we are in; to bind up the nation's wounds; to care for him who shall have borne the battle, and for his widow, and his orphan; to do all that may achieve and cherish a just and lasting peace among ourselves and with all nations.

Hon. STUART S. GARSON (*Premier of Manitoba*): Mr. Prime Minister and Delegates to the Dominion-Provincial Conference on Reconstruction: In the course of expressing the warm appreciation of the Manitoba delegates to the welcoming remarks made a few moments ago, if I indulge in the stereotyped gambit that it is a very rare privilege to be here to-day, I should like to emphasize that we mean those words in much more than any formal sense.

In the light of history, past, present and I hope in the future, none can deny that everyone who attends this Conference has had a great privilege indeed and its rarity I think is indicated by the fact that it is perhaps only once in a century that a conference as crucial or which we can make as momentous as this one occurs.

Canada is a young, rich and vital country and as such should always be in a state of transition toward better things. There have been some junctures in her history which were greater and more critical than others, and I think the present is one of them. We almost succeeded during the depression in turning permanently in the wrong direction. Now we have the greatest opportunity perhaps that we have ever had of turning in the right direction.

I think, Mr. Chairman, that it is not an exaggeration in any sense to say quite literally that at this Conference the powers of analysis, the clarity of thought and the statesmanship of the public men who are here will be weighed in the balance and that Canada's present and future will be either the victim or the beneficiary.

I do not think it is necessary for me on behalf of the government or the people of Manitoba to give any assurance of our co-operation in this Conference. If there was no other reason, there is the fact that it was the financial predicament of the Manitoba treasury which was the occasion of the report of the officers of the Bank of Canada which recommended to this government, that is the federal government, the appointment of a certain commission back in 1937.

The work of this Conference is the foundation upon which everything that we can hope to achieve now and after the war must be built. Perhaps it is more critical for us than it is for most of the other provinces, but I think it is true also to say that there is no part of Canada, no province of Canada, no government of Canada and no Canadian citizen but who should regard this Conference and the work it is doing as of equal importance to this country as was the San Francisco Conference to the whole world.

For that reason we approach the work of this Conference with a very deep sense of responsibility, with a very deep feeling of privilege, using that word in its literal sense, and with the feeling which we entertain, rightly or wrongly, that we here have the opportunity which is not vouchsafed to very many human beings of going down in history, either as famous or infamous men.

Hon. JOHN HART (*Premier of British Columbia*): Mr. Prime Minister and Gentlemen, I desire to express our appreciation for your courtesy in calling this Dominion-Provincial conference. Now that hostilities have ceased in Europe and our enemy in the Pacific is retreating, it is fitting that the Governments of Canada should take counsel in order that the strength of this Dominion may be mustered for the problems of reconstruction, as it has been for the problems of war.

We believe that all Canadians are looking to this Conference with expectancy. Events, since the frustrating days of the last depression have greatly influenced opinions previously held on the proper role of government in the national economy. The success which has attended the management of Canada's war economy has, we believe, persuaded thoughtful citizens everywhere that much can be done in times of peace to control the effects of a disturbed business cycle; to banish the fear of unemployment and social insecurity; to maintain a high level of employment and income; and to achieve an ever-rising standard of living.

We were gratified to note in the agenda, which was sent to us last year, that the underlying objective of this Conference was to devise the means by which we might attain these important goals.

Business fluctuations in the past have been an important contributory cause of financial strain on the Dominion, the provincial and the municipal governments alike. We do not suppose that the task of conquering the business cycle is a problem wholly within the range of this Conference. However, in recognizing the menace of uncontrolled depressions on our Federal system, and in calling for a concerted effort to reduce the maladjustments caused by them, we believe that you have provided the basis for genuine accomplishment at this gathering.

In the past, attempts to avoid the effects of depression have been conspicuously unsuccessful. In order that our contribution to this Conference might be directed towards those matters which stand most in need of attention, we have carefully considered the views expressed by the Minister of Reconstruction, in the recent White Paper on Employment and Income, as well as the published findings of the several expert committees established by your Government. We are therefore, aware that the adoption of the economic policy advocated in these documents will impose new and grave responsibilities upon the Federal system.

Confident that these new responsibilities can be assumed, and satisfied that the Federal system is capable of the self-discipline necessary to provide effective co-ordination, the Government of British Columbia has come to this Conference prepared to give its fullest co-operation in that connection.

We are fully cognizant of the complexities involved and are ready to explore all avenues of approach. We are prepared further to assist in the common solution by submitting constructive suggestions.

From the comprehensive programme that has been recommended it is clear that we are asked to consider proposals of fundamental importance. Because of the significance of these proposals, we shall be anxious to give them careful and protracted study before reaching our final judgment.

While the British North America Act clearly defines the respective roles of government in the Canadian economy, the new trends in public finance make it clear to us that there is an increasing number of questions of joint concern, which can only be handled effectively in a Federal system by methods of collaboration and co-ordination by the various governments concerned.

It is not my purpose, at this time, to enter into the controversial aspects of the full-employment policy, a subject which has been discussed widely during the last decade. We realize, however, that, in view of the restricted financial capacity of provincial governments, any effective attempt to employ a method of timing public expenditures, or tax relief to avoid economic extremes, would have to be inaugurated by the Dominion Government. Whether we, in Canada, can successfully use the weapons of monetary and fiscal policy to combat our peace-time enemies of unemployment and depression, depends, we think, partly on international conditions largely beyond our control, and partly on the domestic arrangements which may be devised to co-ordinate governmental and private effort.

The basic question, in our opinion, is how effective recognition can be given to the interdependence of all Canadian governments and, at the same time, preserve the constitutional privileges of the separate parts. We are inclined to think that no one answer to this question will be found wholly satisfactory. Perhaps only through experience can we evolve a practical method of dealing with it. In any case, since we shall be breaking into new and difficult ground, flexible arrangements and continuous Dominion-Provincial collaboration are likely to be more appropriate than rigid, permanent adjustments in the initial stage. It may be that a Dominion-Provincial Co-ordinating Council would serve a useful purpose in this connection.

The suggestion that all Canadian Governments should collaborate in a concerted drive to maintain high levels of employment and income does not appear to be incompatible with the traditional role assigned to the provinces. It is true that in the past taxation has been regarded primarily as a revenue device. To-day, it is recognized that other social purposes may be served by it. For the provinces, however, with their obligation to provide continuous and expanding services to a growing population, it remains true that taxation is primarily a revenue instrument.

We believe it is still an indispensable feature of responsible government that the provinces should raise the bulk of their revenue by this conventional method. We also appreciate the fact that, if every fiscal instrument is to be used in a concerted drive against depression or inflation, some co-operative methods may be necessary in certain revenue fields where previously independent Dominion and provincial methods of collection were feasible.

It is possible that the method of tax-sharing could be used to advantage in dealing with this question. In this respect, experience under the existing tax agreement has shown that the policy of a single agency for the collection of specified revenues commends itself highly.

We anticipate that, under conditions approaching full employment, the revenue fields available for the purposes of provincial and municipal government will be less likely to be inadequate than at other periods. Yet if, in spite of a tax effort equal to that of any other province, a provincial government should temporarily lack needed revenue, we appreciate that the Federal Government, acting in the common interest, should be in a position to extend assistance.

In order that a full-employment programme may be a success labour should be taken into the confidence of the governments so that they may approach the transition period with every assurance that there will be no serious unemployment.

It is also our hope, Mr. Prime Minister, that in striving to build the framework for collaboration in those matters of major importance, provision will be made to deal with some related problems. In western Canada, for example, certain characteristics of the railway freight rate structure have been under fairly continuous criticism, and we believe that, under full-employment conditions, there is a special obligation resting on the governments responsible to make certain that all individuals and enterprises shall enjoy access, on a competitive basis, to markets which lie within shipping range.

Another part of Canadian public finance that needs improvement is the field of municipal finance. In our own Province, municipal governments perforce have had to rely upon the taxation of real property for the major portion of their revenues.

This rigid revenue field, combined with the relief burden of the last depression and the rising cost of social services, has aggravated an already difficult problem. While this problem may be deemed to be essentially one for the provinces and the municipalities to solve, the solution unquestionably will be conditioned by any financial arrangements reached between the Dominion and the provinces. Any substantial tax revisions for, or fiscal aid to, local governments depends on the ability of the province to provide them. In British Columbia we already have begun a systematic attack upon our municipal problem.

The suggestion that a larger share of the cost of education should be borne by the Provincial Government has been pressed vigorously and has been under consideration for some time. It is now being investigated by a Royal Commission and we are anxious to implement any sound and appropriate method recommended to lighten the tax incidence on municipal real property.

Another problem of immediate concern, particularly in urban areas, deals with housing. My Government is anxious to facilitate any arrangement that will speedily alleviate present conditions, and is prepared to co-operate with the Dominion and the municipalities in this connection. It is my intention to make special representation in this regard to the appropriate department.

Correlated with the housing problem and essential to its success is the provision of funds at low rates of interest. The policy to be adopted with respect to rehabilitation and reconstruction also is of great concern to British Columbia. There is a large percentage of its population which joined His Majesty's Forces; there are many thousands who enlisted in other provinces and who on demobilization have elected to settle there; and, finally there are the displaced industrial war-workers—many originating from other provinces—for whom appropriate rehabilitation or re-establishment provisions must be made.

British Columbia, acting within its own sphere of influence, has sought to bring about a measure of social security for its citizens; to maintain and improve the standard of living and at the same time develop its resources so that opportunities will be provided for those with enterprise and vision. While

we are gratified with the advancement that has been made in this regard, we are, nevertheless, determined that more shall be done for the welfare of our people.

There is an anxiety on our part that our standards of living and social security should be maintained, and wherever possible raised to higher levels; to do this an expanding revenue is needed.

We are likewise anxious that others should enjoy the same privileges, and thus we are ready and willing to study these matters and make our contribution toward an acceptable scheme that will bring about a high standard of living and social security throughout the Dominion.

In so far as the sundry problems for discussion relate specifically to Dominion-Provincial relations, we have a wealth of experience from which to draw. We have a knowledge, obtained from sincere and careful planning, of what our needs are for the immediate future. No one, however, can see beyond that period and give an accurate appraisal of future requirements. It is, therefore, important that any agreement proposed shall be flexible, and consequently possible of adjustment.

There is a fundamental approach to these problems which we must not overlook. Out of the suffering and catastrophe of the past six years of war we have, I think, all learned the lesson of unity.

It would be unnatural for a country so vast as ours to be without some divergence of interest in economic matters. Let us then approach these problems with a dispassionate attitude, willing to find the merit in each other's arguments, and with a determination to compromise for the common good.

If this be done I am convinced that we will emerge from this Conference and the meetings to follow with a plan that will make adequate provision for the welfare of the people and provide a basis upon which Canada may build an unassailable union of inseparable provinces.

Mr. MACKENZIE KING: Gentlemen, I have just asked Premier Jones, of Prince Edward Island, if he would wish to proceed immediately or prefer to wait until later in the afternoon. I am assuming that the premiers will wish the Conference to adjourn at one o'clock. As it is five minutes to one now I thought it well to intimate to Mr. Jones that we might have to interrupt his remarks if we adjourned at one. I understand it is the wish of Premier Jones to go on in the afternoon rather than immediately. May I say I had another reason for asking Mr. Jones not to proceed at once. I have an announcement to make which I know will greatly interest all present. It is a world-shaking announcement. Before making it I would suggest that if it is in accordance with the wishes of the Conference we might regard its proceedings as now adjourned, as the matter of which I wish to speak is not one which pertains to the Conference proceedings.

Before we adjourn, may I draw attention to the fact that the Government has already placed before the delegates the proposals of the Government of Canada. These documents are therefore public. I mention this fact because I would not like the Conference to feel that we have been proceeding other than in accordance with the manner which we thought from the correspondence had been established. May I take it that the Conference proceedings stand adjourned until three o'clock this afternoon.

At one o'clock the Conference took recess.

AFTERNOON SESSION

The Conference resumed at 3.20 o'clock.

Mr. MACKENZIE KING: I declare the proceedings of the Conference open. We shall continue this afternoon with Mr. Jones, Premier of Prince Edward Island.

Hon. J. WALTER JONES (*Premier of Prince Edward Island*): Mr. Prime Minister, Premiers and Delegates, the Province I represent is the smallest in area and numbers in the Confederation, but in my opinion has the greatest need of all. I am very happy to be present, and I congratulate the Prime Minister on calling this Conference and particularly calling it the Conference on Reconstruction. On another occasion I would hope to have the opportunity to present a picture of conditions in my province and suggest a remedy. Perhaps this is not the place to go into that. We have a long document which we should like to read to those present and we hope to have the opportunity later.

The announcement of the Conference inspired us to organize and work out plans which are considered to be the most beneficial for the post-war period. We have made extensive studies which are available for committees which we hope will be set up.

I might say that Prince Edward Island and the other Maritime Provinces did not seek to enter Confederation. It was Canada that sought to bring us in. At that time we were relatively well-off; we owned one-seventh of all the shipping in the United Kingdom. That has disappeared and gradually we have been reduced, I might say, to a rather unprosperous state, and we would like to present some of the facts. In the case of Prince Edward Island, which is 62 per cent agricultural and possibly 12 or 15 per cent engaged in other primary industries, we find that even during the war the wages of primary industries have gone up only 89 per cent, while the wages in the secondary industries have gone up over 120 per cent. There is something wrong there. To put it in another way I might say that in one or two of the Canadian provinces the wages for labour will run up to \$25 or \$26 per week while in Prince Edward Island it is only about \$15. That is, with a little more than half the wages for labour we support twice as many people, 10.6 really, while Canada supports only five on an average. There must be something wrong when with half the wages we can support twice as many people. We can support that with statistics and we hope to have the opportunity to do so.

We do not care much whether this Conference is public or private. We have a good case and we do not mind having it reviewed. The eyes of Canada are on us here, and we should be able to work out satisfactory solutions. I do not wish to say anything more at this time, Mr. Prime Minister, but I would say that three attributes of a speech are, first, to be brief, second, to be accurate, and third, to be gone.

Hon. T. C. DOUGLAS (*Premier of Saskatchewan*): Mr. Prime Minister and Fellow Delegates, the delegation from Saskatchewan have asked me, Sir, to express our appreciation to you for calling this Conference and also to congratulate those who have been responsible for the efficient arrangements which are necessary to a Conference of this kind.

We should like to thank you, Mr. Prime Minister, for the very warm, sympathetic and humanitarian terms in which you stated the purpose of this Conference in your address of this morning. It has been said already that this Conference has been called in critical times. General Smuts once said that, "humanity had struck its tent and was again on the march". Events in Europe

and in Great Britain show that tremendous social movements are spreading all over the world. We feel that is equally true of Canada. We feel that our people were never as psychologically prepared as they are now for great fundamental changes in our economic and constitutional structure.

I have no wish, Sir, to anticipate what is to be said when I present the submission from our province, but I do wish to point out that Saskatchewan is not only desirous of co-operating with the Dominion government and the other provincial governments, but that we are prepared to do everything in our power to ensure the success of this Conference.

It has been said that constitutional changes are neither necessary nor desirable. I do not propose to argue that at this moment; but I do want to say, Sir, that in our view the primary function of government is to satisfy human needs and to advance the economic welfare of the people who are governed. That is the criterion which we have set for ourselves. If the satisfying of human needs and the advancement of economic welfare means constitutional changes then we are prepared to support constitutional changes. If the well-being of our people requires fiscal re-arrangements and re-allocations then we are prepared to support such changes. We believe that the function of government is not to be bound to any particular legislative authority. We do not consider any constitution to be sacrosanct. We believe our most sacred obligation is to care for the needs of the people whom we are privileged to represent. We believe that new occasions teach new duties and time makes ancient good uncouth. We are not arguing here that constitutional changes are necessary but we are saying to you and to other delegates, Mr. Prime Minister, that if constitutional changes are necessary we, as a government, are prepared to support them.

We do not agree when it is said sometimes that the surrender of taxing power necessarily involves the loss of authority. For some years now the Dominion government and the provinces have had tax agreements. Under those tax agreements the provinces have surrendered certain taxes and have received in return certain sums of money—at least I am told that some of the provinces have received sums of money. Ours seems to have gone astray in the mail. But the point I am making, Mr. Prime Minister, is that these tax agreements have in no way restricted the capacity of the provinces to serve human needs; as a matter of fact we believe it has enhanced the power of the provinces to satisfy human needs. We come here, however, not wedded to the centralist school of philosophy, nor to those who believe in provincial autonomy. We have come here willing and prepared to make whatever changes are necessary, if such changes are for the good of the people whom we represent.

While I am on my feet, Sir, may I just say a word about the agenda or procedure since it has been raised in this discussion. I think there has been some misunderstanding about procedure. Many of us have been like Will Rogers, "We only know what we read in the papers." Probably that is unfortunate. As the Prime Minister will know, I suggested to him some weeks ago that probably a permanent steering committee of government officials might be set up here at Ottawa for the purpose of preparing the agenda, so that each of us would know exactly what *modus operandi* was to be. The Prime Minister suggested that the Federal government did not think it wise in view of the heavy strain upon transportation. I am not sure that I feel that is a very valid argument. The extra personnel going back and forth from the provincial capitals to meet with the Federal government would hardly strain the transportation system, but there might have been more valid reasons and I am not arguing the question at this time. But I do think that any misunderstanding would have been obviated by having a steering committee of government officials working here for a week prior to our gathering.

Having said that, Mr. Prime Minister, may I say that I can see no objection whatsoever to the programme which is proposed. I see no reason why, when each of us has responded to the Prime Minister's very excellent speech of welcome each of us cannot have our provinces present submissions. I think those submissions should be public in view of the fact that the Federal government has given publicity to its proposals. When that has been done a steering committee can be struck off to prepare an agenda.

Once again may I say to you, Mr. Prime Minister, and to the delegates that the Province of Saskatchewan comes here with a broad national point of view. We like to think of Canada in terms of a national community and we are prepared to do whatever we can as a province in co-operation and conjunction with the Dominion government and the other provinces to assist in every way possible to satisfy the social needs and to advance the economic well-being of the people of Canada.

Hon. E. C. MANNING (*Premier of Alberta*): Mr. Prime Minister, Fellow Premiers, Gentlemen:

On behalf of the Government of Alberta may I say that we regard this Conference as one of the most important occasions since Confederation. On March 9 last, when presenting the Annual Budget Address in the Provincial Legislature, I summarized the position of the Alberta Government with respect to the purpose of this Conference in the following words:

"We regard as of paramount importance to the future welfare of each and every Province and of Canada, as a whole, an early and satisfactory settlement of the whole vexatious problem of Dominion-Provincial relations. A house divided against itself cannot stand. It is folly to pretend that the present relations between the Dominion Government and the Governments of the respective Canadian provinces are such as to warrant other than the gravest concern at a time when the country should be fortified with the utmost of solidarity and unanimity to ensure the successful transition from war to a victorious peace. This problem cannot be solved by compromise and the evasion of fundamental issues and basic principles. The solution demands that the jurisdiction and the responsibilities of the respective governments be clearly defined and definitely established. In so far as the Government of Alberta is concerned, we mean business in this matter and stand ready and anxious to do our full share towards bringing about an effective and permanent solution to this serious national problem at the earliest possible date."

It is with this attitude that we have come to this Conference, and therefore we welcome the opportunity to submit a résumé of those matters which we regard as basic to the successful solution of the serious problems which this Conference must face.

Our submission is based on the assumption that this Conference has two major objectives.

(a) To reach agreement upon measures which are necessary to the establishment of a sound post-war Canadian economy in which it will be possible for all to enjoy social and economic security with the maximum of individual opportunity.

(b) To establish Dominion-Provincial relations on a basis that will ensure permanent national unity and harmony, and the maximum degree of mutual co-operation in the conduct of national and provincial affairs.

In addition to this brief, we have prepared a comprehensive list of specific subjects of national importance and which we will ask to be included on the Conference agenda, but we would emphasize that the following matters are basic requisites to the attainment of the broad objectives referred to above.

(1) Optimum production through the removal of artificial restrictions and by the progressive expansion of industrial and commercial development.

Canada's wartime production has proved that under the stress of necessity the nation's production can be expanded to provide a volume and variety of goods and services which, if applied to peacetime requirements, would ensure an abundance of everything necessary to make possible a high and secure standard of living for every Canadian family. Production cannot be maintained and further expanded unless effective steps are taken to prevent artificial restriction by monopolies, combines and cartels, and unless relief is given from the present system of excessive taxation which depletes individual purchasing power, stifles capital investment, discourages industrial development, and retards economic expansion. Relieved of these restrictive forces and provided with adequate credit facilities, a stable price structure, and freedom from inflationary or deflationary fluctuations, Canada's production not only can be maintained but expanded progressively to provide a steadily increasing volume of goods to raise the standard of living, together with the maximum of opportunities for gainful employment for the Canadian people.

(2) A national income so distributed and sufficient in its aggregate to make possible:

(a) A secure standard of living for every Canadian citizen.

(b) The satisfactory distribution of Canada's total production or its equivalent when Canadian goods are exchanged for others through export and import trade.

The absolute necessity of a national income meeting these basic requirements is self evident. If the national income is not distributed in such a way that every citizen can obtain a sufficient share to enable him and his dependants to enjoy a secure standard of living, then obviously we cannot say we have reached our goal of social and economic security for all, even though the abundance of our production makes the attainment of that goal physically possible. Likewise, if the aggregate of our national income is insufficient to permit the satisfactory distribution of our entire production or its equivalent, then the goods which the people are unable to buy through lack of purchasing power will pile up on our shelves, and in our warehouses, resulting ultimately in the curtailment of production with mass unemployment as a natural consequence,—in short a return to the vicious cycle of pre-war depression which bitter experience should have taught us, follows inevitably in the wake of a chronic shortage of purchasing power.

(3) A practical program of rehabilitation for returned men, including immediate provision for satisfactory low cost homes, and adequate assistance to veterans to facilitate their re-establishment into civilian occupations.

Such a program is not only the solemn obligation of the Canadian people to those who have offered their lives in the defence of Canada, but it is obviously the first step in any comprehensive program of post-war reconstruction. If we cannot take even this first step successfully what is the use of talking about what we are going to do later on. Already there are indications that the provisions made thus far for the rehabilitation of our returned men are falling short of meeting the necessary requirements.

Adequate housing is a primary need which is not being met by the provisions that have been made thus far. The urgent need of returning men is not 50,000 houses next year, but immediate accommodation in homes which they can obtain on a low cost rental basis. Obviously this is impossible if the capital

costs of such homes are to be amortized and included in the rental charges. The solution lies in Dominion subsidies to take care of at least the greater part of the capital costs. Otherwise our returned men simply are not going to be able to obtain homes at rates they reasonably can be expected to pay during the period in which they are endeavouring to re-establish themselves in civil life.

We submit that this is a matter of such urgency that action should not be delayed until a committee of this Conference makes a further investigation and report. Rather, immediate and effective action along the lines suggested should be taken by the Dominion Government to relieve this serious situation.

While the Dominion primarily is responsible for the rehabilitation of the men released from the fighting forces, the practical problems, resulting from their inability to obtain even temporary accommodation, land squarely on the doorsteps of the Provinces. Hence this matter properly can be regarded as coming within the field of Dominion-Provincial relations.

(4) Provision for adequate social services measured in terms of human need and physical possibility rather than in terms of financial costs.

Since the outbreak of war a veritable revolution has taken place in the public attitude towards the whole question of social services. Whereas prior to the war people were prepared to concede that lack of money was a legitimate reason for very limited social services being available, they are no longer willing to do so. The war has demonstrated that the only real limiting factors to economic activity are those of manpower and material resources and the knowledge available for their utilization. It has been shown that under the compelling demands of war conditions the money could be, and was, made available to produce an abundance of goods as well as to finance non-productive services on an unprecedented scale. It is contended, and properly so, that if goods and services on that scale could be provided in wartime for the destruction of human life, they can be provided for the preservation and enrichment of human life in times of peace. Therefore the public demand for social services is no longer tempered by considerations of finance, but is governed by considerations of human needs and the physical possibilities of the economy. This changed public attitude must reflect itself in government policies henceforth, if the Canadian people are to get the results they properly expect from the management of their affairs.

(5) A clear and definite understanding as to the respective fields of jurisdiction and responsibilities as between the Dominion and the Provincial Governments.

It should be pointed out that many of the difficulties which exist in this regard are not due to the allocation of specific responsibilities and autonomous powers under the B.N.A. Act, but rather arise from the interpretations which have been placed upon it. The situation has been confused by the Dominion Government's invasion of various fields of provincial jurisdiction under the exigencies of war. As an initial step towards permanently clarifying the situation that has developed, it is necessary that there be a clear and definite understanding as to the exact scope of the responsibilities and powers of the Dominion and Provincial governments respectively.

In addition it is necessary that amendments to the Constitution itself should be considered in cases where it is obvious that such are required in the best interests of our people as a whole, and, specifically, to allocate the responsibility for and jurisdiction over such matters as have become of national interest and importance since the time of Confederation. In this latter category aviation and radio are typical examples.

(6) A fair and equitable adjustment of those factors which have a detrimental or discriminatory effect upon the economy of any part or parts of the Dominion.

Under this heading should be placed such matters as the existing Canadian freight rate structure which is having all the evil effects of a discriminatory tariff on the economies of the western provinces. Other matters such as selective tariffs which raise the prices of manufactured goods to the detriment of the predominantly agricultural provinces also could be properly included under this heading.

(7) A satisfactory settlement of those major issues in which the Provinces have an interest co-equal with the Dominion.

The major matters in this category are taxation and monetary policy. With the expiration of the present Tax Transfer Agreements the Provinces will be confronted with the effect of the Dominion Government's invasion of those fields of taxation which, prior to the war, were the Provinces' main sources of revenue. [The increased rates of both direct and indirect taxation which the Dominion Government has established during the war, if maintained even at a substantially reduced level, automatically will restrict the revenues available to the Provinces from their constitutional fields of taxation, and will thereby render it financially impossible for them to discharge their constitutional responsibilities unless their revenues are augmented from other sources.]

In the matter of monetary policy, any adverse results accruing from national policy, over which the Dominion Government has exclusive jurisdiction, may very easily affect the entire economy of the country with disastrous consequences to the Provinces. Experience has shown that a deflationary national monetary policy ultimately will produce depression conditions on a national scale, with mass unemployment, ruinous agricultural prices and widespread destitution. While such conditions may be the result of national monetary policy the constitutional responsibility for dealing with these conditions when they develop falls primarily on the Provinces. Obviously this is a situation which must be rectified.

Immigration is another question in which the interests of the Provinces are co-equal with the Dominion. While constitutionally, authority over immigration policy is vested in the Dominion Government, the Provincial Governments are saddled with the responsibility for the consequences of Federal immigration policy, by having to provide social services, etc., for the immigrants. Obviously under such circumstances a situation can easily develop which from the standpoint of the Province or Provinces concerned might be decidedly unfair.

(8) Provision to ensure adequate provincial and municipal revenues.

It is becoming increasingly obvious that it will be financially impossible for provincial and municipal governments to discharge properly their constitutional responsibilities, and to meet the additional excessive demands of the post-war years, with the limited revenues available to them from present sources. Therefore, it is fundamental to the establishment of any sound post-war economy, that the revenues of provinces and municipalities be augmented sufficiently to enable them to discharge their responsibilities and to meet the just requirements of their people in the years that lie ahead.

(9) The recognition and preservation of the basic principles of effective democracy.

The purpose of the democratic federal constitutions adopted by the British Dominions is to provide an effective means for welding together a number of units covering an extensive geographical area into a single nation, without sacrificing any of the advantages to be derived from the greatest possible de-

centralization of autonomy so essential for the preservation of democratic government. The broad principle involved in such a democratic federation is that jurisdiction over all matters which are essentially national in scope shall be exercised by the central government, but all other matters shall come within the jurisdiction of the provincial or state governments. In this respect the British system, which forms the basis of the Canadian constitution, is a product of a more varied and a richer experience than any other modern form of democratic government.

Long ago it was discovered that the weakness of a central representative government being granted jurisdiction over matters which were of particular importance to various areas of the country, was, that whereas the representatives of those areas might press for action on a matter of the utmost local importance, they would be met by indifference or even opposition on the part of representatives from other localities, with the result that matters of general concern invariably took precedence and it was almost impossible to get effective action on local issues. By the same token, representatives of more sparsely populated and undeveloped regions generally found themselves over-ruled by the greater number representing the more populated and developed regions of the country. This led to the progressive and decentralization of electoral autonomy and administrative authority, as a result of which the people of the British Commonwealth of Nations learned by experience that such decentralization not only gave the electorate more effective sovereignty, but it also proved that the closer the people were to their government the greater their control, and the more effective their constitutional authority.

It is fundamental to any permanent strengthening of Dominion-Provincial relations that there should be recognition of these basic principles of effective democracy. Any program based on the premise that more power and authority should be centralized under the jurisdiction of the Dominion Government, is, in the light of experience, unsound in principle and a negation of the basic policy of decentralization which has marked the evolution of the British system of parliamentary government, and which is one of the secrets of the unity and strength inherent in the British Commonwealth of Nations.

(10) The elevation of Canadian public affairs to a new level of statesmanship where the good and welfare of the Canadian people as a whole will be the sole consideration of governments, and where the maximum measure of mutual co-operation and effort will be exercised to that end.

When Canada was faced with war, all sections of the Nation, irrespective of differences, united in a common effort for victory. Canada's peace effort is, in every respect, as vital to Canadians in its outcome, for what will it profit this Nation to have achieved victory in the military field if the calamity that followed the last war is repeated and the people suffer a crushing defeat through failure to achieve the kind of peace for which they fought. Canadians can be mobilized for peace comparable with their achievements in war under conditions which will make for a closely knit national effort in which the welfare of each will be the concern of all. To give the necessary leadership to that end is Canada's challenge to every representative gathered for this Conference.

In as much as it is proposed to set up appropriate committees, to which these and similar matters of comparable importance can be referred for detailed consideration and discussion, it is unnecessary to elaborate further at this stage. May I say, Mr. Prime Minister, that in preparing this statement I proceeded on the assumption that the course to be followed would be the establishment of committees to which items agreed upon to be on the agenda would later be referred. Rather may I outline briefly the views of the Alberta Government with respect to the general over-all problem confronting every government in

Canada to-day, and which, in the best interests of the Provinces and the Dominion as a whole, must be solved satisfactorily by this Conference if it is to achieve its purpose.

The Basic Problem

Unquestionably, many of the present difficulties in Dominion-Provincial relations have developed out of the rigidity of a constitution circumscribed by a statute of the British Parliament, under which the distribution of the respective legislative powers of the Dominion Parliament and the Provincial Legislatures were specifically laid down in the light of conditions existing at the time of Confederation. This was inevitable under a federal system of government, and, moreover, it is questionable whether the difficulties which have since developed could have been foreseen at that time.

It seems beyond dispute that for purposes of a federal constitution, the broad principle upon which legislative powers, were distributed as between the Parliament of Canada and the Provincial Legislatures under the provisions of the B.N.A. Act, was generally sound. Jurisdiction over those matters of national concern was reserved exclusively to the Dominion, while jurisdiction over matters with respect to which decentralized autonomy was considered desirable, and all matters of an essentially provincial nature, were reserved exclusively to the Provinces. Despite the difficulties which have developed, the specific allocation of responsibilities and authority as between the Parliament of Canada and the Provincial Legislatures indicate sound judgment on the part of the Fathers of Confederation.

At the time of Confederation, and for many years afterwards, the Provinces accepted the responsibilities conferred upon them under Section 92 of the B.N.A. Act without any misgivings in regard to their implications. At that time there was nothing to indicate the extent of the social services which the Provinces would be called upon to provide under the sheer stress of future economic conditions. Likewise, at the time of Confederation it was considered that the sources of revenue allocated to the Dominion and to the Provinces would be adequate to enable them to meet their respective responsibilities. While the Dominion was given the power to levy any form of taxation, in actual practice it left the field of direct taxation exclusively to the Provinces until the pressure of conditions during the last war forced the Dominion into the field of direct taxation.

From that point onwards the problems of both the Dominion and the Provinces increased with cumulative momentum. During the preceding half-century the Provinces, faced with the responsibility of providing roads, highways, schools, hospitals and other essential public and social services for their increasing populations, were forced to make expenditures far in excess of their current revenues, and consequently had accumulated heavy burdens of public debt. Likewise the Dominion found itself involved in steadily increasing expenditures in meeting its responsibilities for transportation, harbours and coastal facilities, national defence, etc. Faced with the necessity of financing the national war effort of 1914-18 it likewise resorted to heavy public borrowing in addition to exercising its powers of taxation to an unprecedented degree. Following the war the peacetime demands on both the Dominion and the Provincial Governments steadily increased, until the majority of the Provinces were more than cognizant of their limited sources of revenue in relation to the mounting expenditures they were called upon to make in order to discharge their constitutional responsibilities. With the advent of the great depression in 1930 the situation became acute.

Already overburdened with debt, the Provinces were confronted with the additional problem of providing relief for the destitute victims of a rapidly growing army of unemployed. In the dominantly agricultural provinces, such as

Alberta, the situation was aggravated by the plight of debt-burdened farmers who were forced to market their products at ruinously low prices. Under such circumstances the Provinces major source of current revenue from direct taxation was totally inadequate to meet their requirements, leaving them no alternative but to pile up further debt, thereby pawning their future revenue. Ultimately they were forced to come cap in hand to the Dominion Government to beg financial assistance in dealing with the emergency. Obviously satisfactory Dominion-Provincial relations were impossible under such circumstances.

With the outbreak of war in 1939 the Dominion Government was confronted with the task of financing a national war effort on an unprecedented scale. For this purpose it sought and obtained from the Provinces the exclusive right to levy income and corporation taxes for the duration of the war in return for fixed and guaranteed annual payments.

During the war, despite the fact that direct and indirect taxation have been increased to their maximum limits, the Dominion has accumulated a national debt, the servicing of which already requires more than twice the present annual revenue of the four Western Provinces combined. In addition, the Dominion Government has accumulated obligations for state insurance schemes, family allowances, subsidies, service pensions, etc., which in the aggregate ultimately may call for an annual expenditure in excess of its entire pre-war tax revenue. These items do not take into account the ordinary peacetime expenditures for which the Dominion Government is obligated and which in pre-war years absorbed the entire income of the federal treasury.

The crisis in our national economy and in Dominion-Provincial relations which has been developing steadily as a result of these growing difficulties, now has been brought to a head by the stern demands of the post-war period with which the Dominion and the Provinces alike are confronted.

With the final cessation of hostilities and the expiration of the present Dominion-Provincial tax agreements, the Provinces for their part will be faced with the problems of maintaining greatly expanded social services, making good the depreciation of public highways, buildings, etc., which has accumulated during the war, and, in addition discharging their obligations in an adequate programme of post-war rehabilitation and development. Under present circumstances the Provinces will be forced to rely upon the limited revenues which they can derive from direct taxation and from further borrowing in order to discharge their responsibilities. Moreover, income tax and corporation tax have in the past been two important fields of provincial revenue, but both have been invaded by the Dominion to an extent which, if continued after the expiration of the Dominion-Provincial tax agreements, will for all practical purposes nullify the Provinces' constitutional right to derive revenue by means of direct taxation in these fields.

To suggest that the Provinces can meet their post war obligations by means of large scale public borrowing obviously is no solution to the problem but merely pushes it into the future with increasing certainty that results will be even more disastrous a few years hence. Obviously the present situation is absurd and places both provincial and municipal governments in an intolerable position. The whole situation resolves itself down to the one indisputable fact that the major problem confronting all Governments to-day is primarily financial, and, in so far as provincial and municipal governments are concerned, it is absolutely impossible for them to discharge their post-war responsibilities within the confines of the Constitution and the laws of Canada unless the necessary additional revenue is made available to them.

It is not a problem of scarcity of resources or of lack of machine power, man power or ability to transform those resources into every conceivable form of goods necessary to meet the post-war requirements of the Canadian people.

It is not a question of physical inability to train men and women in the post-war years to render efficiently every conceivable private and public service necessary to the good and welfare of mankind. History has demonstrated that in times of peace, under our present economy, the factor that limits both the individual's standard of living and the measure of social and public services provided by the state is financial rather than physical. Until this absurd situation is corrected no amount of reshuffling of our responsibilities or of our inadequate revenues will solve our problems and ensure the people of Canada a post-war economy in which their standard of living and the measure of their social services will be limited only by the aggregate of their material resources and their combined ability to produce the goods and services they require.

Jurisdiction and Responsibility

Like so many seemingly complex problems, the present difficulties in Dominion-Provincial relations arising out of this situation are relatively simple in origin and stem from a violation of fundamental principles. It is axiomatic that all authority must carry with it corresponding responsibility and vice versa. Furthermore, responsibility without the means for carrying it out cannot be maintained.

In actual fact, while with respect to certain matters the Dominion Government has been given constitutional authority, the Provincial Governments are constitutionally responsible for the consequences of the Federal Government's actions. With respect to other matters for which the Provinces must assume full constitutional responsibility, they are denied the means—that is, the effective constitutional authority—necessary to enable them to discharge those responsibilities. Section 92 of the B.N.A. Act gives the Provinces exclusive jurisdiction over property and civil rights, but experience has shown that the Provinces' authority in this field is largely nullified by the fact that the Dominion Government has exclusive jurisdiction in matters affecting interest and bankruptcy laws. This was brought out forcibly during the pre-war depression years when under the stress of economic conditions many western Canadian farmers were unable to meet their debt obligations resulting in wholesale foreclosures at depressed land values by lending corporations. It was within the Provinces' sphere of jurisdiction to safeguard the property rights of the victims of those conditions, but Provincial Governments frequently found themselves frustrated in taking effective action due to the fact that the Dominion possessed exclusive jurisdiction over matters affecting interest and bankruptcy.

Of particular importance is the fact that the Dominion Government enjoys exclusive jurisdiction over banks, banking and the issue of money, together with the regulation of trade and commerce. This gives the Parliament of Canada complete jurisdiction over national monetary and economic policy, but it is the Provinces that are constitutionally responsible to provide the necessary relief and other social services required by those who find themselves unemployed and destitute as a result of a restrictive monetary policy imposed or permitted by the Dominion Government. In short, experience has demonstrated that the Provinces frequently must assume responsibilities involving substantial expenditures as a result of the consequences of national policies over which the Dominion Government has exclusive jurisdiction, while at the same time experience has made it equally clear that the constitutional responsibilities of the Provinces frequently cannot be carried out effectively due to the fact that provincial authority in certain fields is nullified by the Dominion's exclusive or equal rights in fields

which infringe upon provincial autonomy. This situation is particularly acute in regard to matters involving financial policy and its effects upon the economy of the country as a whole.

It has already been pointed out that the crux of the problem confronting every Provincial Government to-day is financial. Even taking into account the effects which the exercise of the Dominion's powers may have upon the constitutional rights and responsibilities of the Provinces, Provincial Governments would have no serious difficulty in discharging their responsibilities with respect to public health, education and all other social and public services if they were assured of adequate revenues to make the expenditures necessary.

It has been shown that the revenues at present available to the Provinces are hopelessly inadequate to meet the requirements of the coming post-war period. Under the circumstances the only source to which the Provinces can look for additional revenue is the Dominion Government which not only has access to all fields of taxation but which also enjoys exclusive jurisdiction over banks, banking and the issue of money—in fact over the entire national monetary system through which all money, available for public revenue or any other purpose, comes into being. Therefore, it is plainly the responsibility of the Dominion Government to ensure that Provincial revenues are adequate to enable the Provinces to discharge fully their constitutional responsibilities.

The Solution

There are those who maintain that the solution to this problem is for the Provinces to surrender to the Dominion their constitutional authority over the matters involved, and thereby transfer to the Dominion Government the financial obligations which attach to the proper discharge of those responsibilities.

This proposal has two obvious weaknesses. First, it does nothing to remove the root causes of the difficulty, but rather seeks to evade the real issue by shifting responsibility for providing social and other public services to the Dominion Government. Secondly, it violates the basic and fundamental principle of effective democratic government, by centralizing under the Dominion, administrative authority over matters which properly should be under the effective control of the people of the respective Provinces. It does not alter the situation to contend that the loss of provincial autonomy would be offset by the fact that the Dominion Treasury would assume the financial obligations which attach to the administration of such social services. In the last analysis it is the people of Canada who are footing the bill, whether the Dominion or the Provincial Governments extract the revenue from them. For the Dominion to assume jurisdiction over all social services would simply mean that the people of Canada, who are the citizens of the respective provinces, would still be paying the bill but would no longer have the effective voice in deciding the nature of the social services to be provided, that they have when such services are under the jurisdiction of their provincial and municipal governments.

There are others who contend that the solution to our problem lies in the redistribution of the various fields of taxation as between the Dominion and the provinces. Certain adjustments in the fields of public revenue and in the powers of taxation certainly are desirable and necessary, but let us never forget that the mere realignment and redistribution of the powers of government to extract public revenue from the pockets of Canadian business and the Canadian people does not, and cannot, increase by one red cent the amount in those pockets that is available for extraction. In other words no amount of mere juggling the respective fields of taxation as between Dominion, Provincial and Municipal Governments, can possibly enhance the ability of the Canadian people either to tax or borrow themselves into an era of permanent post-war prosperity.

We have already contended that it is definitely the Dominion's responsibility to ensure that the Provinces have adequate revenues to enable them to discharge fully their constitutional responsibilities and to meet their extensive additional post-war requirements, but the cold hard fact must be faced that to do so on an adequate scale would require the Dominion to turn over to the Provinces exclusively some of its major fields of revenue, or alternately, to turn over such a large portion of its revenue from those sources that the Dominion Government itself would be left with insufficient revenues to discharge its responsibilities when the scale of taxation is reduced to normal peace-time levels. It is useless to attempt to avert this situation by seeking to maintain taxation at excessive war-time levels and by continuing a policy of mortgaging our future by borrowing ourselves still deeper into debt—a course which ultimately must defeat its own end and precipitate the very crisis it seeks to defer.

In the light of these circumstances the effective solution to our problem obviously requires a policy that goes far beyond the mere adjustment of our respective responsibilities or the reallocation of our present inadequate sources of public revenue. It lies within the sovereign power of the Dominion Government, through the Bank of Canada, to monetize fully the real wealth of the nation as represented by our abundant national production, and to utilize the financial credit representing the monetization of that real wealth to supplement the ordinary public revenues of the Dominion and of the Provincial Treasuries.

Such a monetary policy, operated within adequate scientific safeguards against both inflation and deflation, would enable the Dominion Government to ensure to the Provinces adequate revenues to discharge fully their constitutional responsibilities without jeopardizing its own financial position, and would, at the same time, remove the necessity for excessive taxation and the accumulation of further public debt. It would put the Dominion and the Provincial Governments in a financial position to implement adequate programmes of post-war rehabilitation and reconstruction, which would raise progressively the standard of living of the Canadian people to the high level which the abundance of our resources and our steadily expanding productive capacity would make physically possible.

While it would be out of place in this submission to embody the technical arguments in support of this proposal, these are dealt with in a comprehensive manner in the report of the Sub-Committee on Finance of the Alberta Post-War Reconstruction Committee, which report, with the permission of the Chairman, I should like to make available to members of this Conference and to the members of such Committees as may be called upon to deal with matters which relate to fiscal policy. It is sufficient at this stage to say that the obvious and imperative need for effective action along the broad general lines which I have indicated should commend this proposal to the earnest consideration of all those who share the grave responsibility of government at this crucial time.

Conclusion

May I therefore conclude by saying, that it is the considered opinion of the Government of Alberta, that this Conference can best attain its worthy objectives by charting a course that will preserve inviolate those basic autonomous rights which the Fathers of Confederation allocated so wisely as between the Dominion and the Provinces, and that will adhere to the proven principle of the widest possible decentralization of administrative authority. Let us resolve to reach a clear cut and definite understanding as to our constitutional responsibilities and the boundaries of our respective fields of jurisdiction. Let us consider only such alterations in our Constitution as, beyond all doubt, are necessary in the best interests of our people as a whole. Let us rather by mutual agreements between the Dominion and the Provincial Governments overcome any difficulties

which have arisen as a result of duplication or the overlapping of autonomous rights; and in the same manner let us proceed to eliminate any inequities or injustices which have developed as between our respective governments and peoples.

Above all, for the sake of Canada and in the name of her sons who died that others might enjoy a future worthy of their sacrifice, let us bury our differences and get down to brass tacks in a united effort to solve our problems and to remove the root causes of our difficulties.

Mr. MACKENZIE KING: This completes the preliminary statements by the Premiers of the several provinces. May I again make it abundantly clear that with respect to the agenda and proceedings the Conference is master of itself. So far as the government has had in mind expediting the proceedings by the course I have mentioned already, it has been for that reason and that reason only. If any of the delegates feel that a different course should be followed, by all means it is a privilege of each and every one so to state.

With the permission of the Conference and the delegates I would ask that Mr. St. Laurent, the Minister of Justice, be accorded the privilege of stating at once to the Conference what the government and the Cabinet Committee on Dominion-Provincial Relations had thought would be the most appropriate way of proceeding. As I mentioned at the outset, Mr. St. Laurent has been the Chairman of the Cabinet Committee on Dominion-Provincial Relations and it was our intention to have him state to the Conference, when the preliminary addresses had been completed, the procedure that he had in mind following from that time on.

If it is agreeable to the members of the delegations present I would ask that Mr. St. Laurent make his statement now. Perhaps, if you like, Mr. St. Laurent could act as Deputy Chairman at such times as I may not find it possible to be present myself.

PROCEDURE

Hon. L. S. ST. LAURENT (*Minister of Justice*): Mr. Prime Minister and Gentlemen, I feel that I should even at this hour very briefly echo in French the words of welcome the Prime Minister addressed to the meeting this morning.

On trouvera convenable, j'en suis sûr, même à cette heure, que je fasse très brièvement écho en français aux paroles de bienvenue et de remerciements que le premier ministre a adressées en son nom et au nom de tous ses collègues, à ceux qui sont réunis ici, aujourd'hui, pour cette conférence fédérale-provinciale du rétablissement.

Il serait fastidieux de les traduire ou de les répéter en français, mais je désire, tant pour mes collègues de langue française que pour moi-même, nous y associer expressément.

Je me permets, cependant, d'en traduire les trois paragraphes suivants pour les souligner d'une façon toute spéciale.

Le Premier Ministre disait:

Je suis sûr de pouvoir dire au nom de tous les délégués présents que nous nous réunissons en conférence en vue d'atteindre un objectif primordial, un objectif d'intérêt commun; le développement de notre patrimoine d'un océan à l'autre, ainsi que le progrès et le bien-être du peuple canadien.

Il est vrai que chaque gouvernement provincial est responsable en tout premier lieu à la population de sa province. Mais par le fait même de notre réunion en conférence, il est reconnu que les intérêts de chaque province sont étroitement liés au bien général de toutes.

Dans les propositions que le gouvernement fédéral soumettra à la conférence, mes collègues et moi avons surtout envisagé, comme c'est notre devoir, ce qui nous semble être d'intérêt général pour tout le pays. Mais nous nous sommes efforcés de ne pas perdre de vue surtout que le Canada est un pays fédéré où chaque province possède ses caractéristiques propres et ses problèmes spéciaux. Les propositions du Dominion ont été formulées en vue d'affermir et le gouvernement national et les gouvernements provinciaux dans leur aptitude à exercer les fonctions de leur ressort. Nous avons le désir sincère de voir les délibérations de la conférence se poursuivre dans une atmosphère où, parce qu'il sera tenu compte de la sphère d'action propre à chaque gouvernement, la plus grande collaboration possible sera réalisée.

Il est possible que nos premières discussions de ces propositions et des autres qui seront sans doute soumises par des représentants provinciaux, fassent voir certaines divergences d'opinion sur les meilleurs moyens d'affermir chaque gouvernement dans son aptitude à exercer les fonctions propres à son rôle dans un état fédéré. J'ose espérer qu'aucunes de ces divergences d'opinion ne s'avèrent irréconciliables, et que nos discussions seront fécondes en décisions qui assurent la coopération nécessaire et qui soient en même temps marquées par le respect réel et efficace de la sphère d'action propre à chaque gouvernement.

I may perhaps be permitted to take just a moment to indicate the physical arrangements that have been provided for the convenience of those attending the conference. First of all as to reporting: Arrangements have been made for a verbatim report of the Conference Proceedings. Speakers are requested to give the Reporters a copy of any manuscript. The transcript may be seen and corrections made at the Reporters' Office, Room 327, within an hour after delivery. It may be that beyond the hour will be too late to prevent the transcripts getting into the hands of the printers. Printed copies will be available for distribution on the following day.

There is a stenographic pool available for any stenographic and typing work on application to the Secretary's Office, Rooms 204 and 206 on this floor, just outside the door of the House of Commons. Mimeographing facilities are also available if required. It is suggested that a group photograph be taken in front of the House of Commons at 2.45 p.m. on Wednesday. It had first been suggested it might be to-morrow, but the grounds will not have been cleared away in time, and the present suggestion is that it be done at 2.45 Wednesday afternoon.

As is probably already known to those attending the Conference the Prime Minister has invited the provincial premiers, ministers and advisers to a reception at the Chateau Laurier at 7 p.m. on Wednesday, the 8th, to be followed by a dinner for the Premiers and the Ministers at the Country Club at 8.30 and a dinner for the Dominion and Provincial advisory officials at the Chateau Laurier at eight o'clock on the same evening.

Now, as to the suggestions it had been intended to make for the initial proceedings of the Conference; they were based on the committee's understanding of what seemed to have been agreed to. It will be remembered that in the letter of invitation it was said that the Federal government intended to put before the conference a number of proposals following the general outline submitted in the memorandum of suggestions which was adopted on May 15, 1944, and that opportunity would be given equally to any provincial government which wished to submit a general statement or alternative proposal. The general tenor of the answers was as follows:

You state that the Dominion Government intends to place before the Conference a number of proposals. The Ontario Government will do the same and I assume the Governments of the other provinces will do likewise. It will then be possible to decide upon the procedure to be followed.

We have taken that as indicative that it would be agreeable to place the proposals before the Conference and that an opportunity be provided to each province to place like proposals before the Conference, not anticipating that there would necessarily be a discussion of the proposals submitted by the Dominion authorities; that a discussion and debate on the merits of the proposals could come at another stage, and that immediately after the presentation of these proposals there might be constituted a steering committee of two or three of the Dominion ministers and heads of the provincial delegations to determine what the future ulterior procedure might be.

Of course there is no suggestion that there is any contractual undertaking that that be the procedure and there is no intention of insisting upon any form of procedure that might not be agreeable to all those gathered together for the Conference. But if that does seem to be a proper way of proceeding I would then venture to commence the formal submission to the Conference of the proposals of the Government of Canada.

MR. MACKENZIE KING: Perhaps before you do proceed to read the proposals we might definitely decide as to whether the course you have just now suggested will be agreeable to all present. Let me say at once that so far as the Dominion government is concerned I think we will be quite prepared to leave that entirely to the Premiers of the provinces. If they would like to proceed as suggested with the reading of the proposals of the Dominion Government it could then be followed by the reading of the proposals of any Provincial government; and after the completion of the reading of those proposals then to have the steering committee appointed and the Conference recess while the steering committee decides upon the agenda or the procedure.

MR. DOUGLAS: I would so move.

MR. DREW: Before we arrive at a decision on this, I may say at the outset that I am not going to raise any objection to the general procedure suggested. No matter what understandings there may have been or otherwise, the fact remains that our purpose now is to achieve the best results we can in the situation with which we are confronted. The fact is that the proposals of the government of Canada have been communicated to the Press and to the people of Canada—in fact, the people of Canada had the opportunity to know of these proposals before those attending this Conference. I do not raise any particular point in that respect at the moment beyond saying that is the situation. However, I do raise the question as to the advantage of each of the ministers reading the proposals that are already in printed form, and may I say, very excellent printed form. I do not raise this suggestion because, I for one, would not be pleased to hear their voices but I happen to be one of those who is able to absorb information which is in printed form more readily from the printed page than in listening to the ministers; and perhaps because of the time of the year in which we are meeting there may be some who may be able to follow in more consecutive detail the printed record than if we were to proceed to listen to the proposals read publicly. I am not going to stress the point, but when facts are presented in printed form in this way it affords the provincial delegations the opportunity to examine the proposals. My own impression is that if we followed the practice which we would all follow in our own jurisdictions, and take this as read, we could then proceed with the business of deciding how the committee will deal with the recommendations.

MR. DUPLESSIS: Mr. Chairman, I may say that I was surprised—I say this in a friendly mood—when I came here from Quebec where I am very busy, and heard that certain documents emanating from Ottawa had been communicated to somebody else before being communicated to the members of the Conference. I do not infer from that a lack of courtesy, but I think it is really unfortunate. If we want this Conference to proceed as we all wish it to proceed in harmony

and friendly co-operation I think these matters of courtesy should always be taken into consideration. Mind you, I do not think it is a vital matter but it creates an atmosphere which I think is not the proper atmosphere in the circumstances. I know that the Dominion Government would have every reason to be offended if the Province of Quebec had published a memorandum and somebody else had received it two days before especially when it contained a proviso that it was going to be published at ten o'clock this morning, even before we started. As I said before, I do not consider this a vital matter, but I think we should proceed with courtesy and according to the general rules.

When the Lieutenant-Governor reads the speech from the Throne a copy of the speech is sent over to the newspaper men to give them a chance to peruse the speech and pass whatever remarks they wish to pass; but there is always a proviso that the Speech from the Throne cannot be published until after it has been read by the Lieutenant-Governor of the Province. That was not done this morning. However, in spite of that we are going to co-operate. As far as Quebec is concerned we are willing to do more than our share; but we should be very careful about these courtesies and amenities.

If we are to proceed I think we should decide on the questions on which we are to proceed. First, there is the important matters of rights and powers; second, there is the matter of finances, which, of course, relates to the first. It seems to me at first glance if you were appointing a steering committee these would be the subjects on which we should proceed because if we steer after we have commenced to walk we shall not be proceeding in the right way. I think we should steer first and walk after. If that is done it will be possible for the steering committee to decide how we should proceed. If we do not decide that I do not know how the Conference will go. We have to be practical. I humbly suggest that we appoint a steering committee first and then decide the agenda and take into consideration as far as is humanly possible the susceptibilities of everybody.

Mr. MACKENZIE KING: I point out there is a motion before the Conference placed there by the Premier of Saskatchewan. Is anyone prepared to second it?

Mr. GARSON: I second it.

Mr. MACKENZIE KING: The motion is to the effect that the procedure be as follows: The Proposals of the Dominion Government and any Proposals of the Provincial Governments be read, and after they have been read that a steering committee be appointed to decide upon the future proceedings.

Mr. DUPLESSIS: I do not want to attach too much importance to these details, but I think if we do not start properly we do not know where we are going. I understood that the Federal Government has some proposals to make and I understood from the correspondence that some of the provincial governments would have proposals to make. That information was published by the Press. It seems to me that to be fair to everybody concerned nobody should bring forward documents or take a stand which would be liable to create prejudice. We should proceed without prejudice; we should proceed in a friendly manner, in a co-operative manner and be willing to do that.

Personally I do not think it is up to Ottawa alone or to the provinces alone to settle these questions. This is a Dominion-Provincial Conference. I think we are all on the same footing and we should be considered as such. That is why I would ask the delegates not to rush matters; that we think very carefully before we arrive at a decision that a steering committee may not help. I understood that the provinces were not called upon to produce memoranda. I had that in a letter which I received from the Prime Minister of Canada. Because of that we have not any memorandum as we did not want to come here prejudiced.

I stated this morning we are absolutely and firmly resolved to safeguard certain basic principles which I mentioned. At the same time I think it is right that everyone should have an open mind on the objectives which we are endeavouring to arrive at. For those reasons I think a steering committee should be appointed first and let them decide how we are to proceed.

Mr. J. B. McNAIR: I think that we owe a great debt to those who have gone to so much trouble to prepare those proposals and submissions which I must confess I have not had the opportunity to look at. They represent a lot of work and I feel that they would probably form a good basis of discussion at a later stage in the proceedings. However, I agree with the Premier of Ontario and so far as I am concerned it will not be of much value to hear them read. I have to do my own reading to get the most out of a document such as this. I think it would be taking a lot of time and you would not be any further ahead in having them read at this stage.

I am very strongly of the view that we should—and this would be a matter for the steering committee—get on with our discussion in private at the earliest possible moment. I think we have a freedom and intimacy when we are in private that we have not in any other way. I would therefore support the Premier of Ontario that we take these as read. I also wish to support the Premier of Quebec in his proposal that we set up a steering committee now. We can then discuss this matter and decide what we should do. If it is in order I would move accordingly.

Mr. GARSON: Mr. Chairman, I must confess that the suggestions which have been made by three of the Premiers present come as a great surprise to us from Manitoba. The subject of this Conference has been the matter of correspondence for a period of some months. We have tried to read the letters which we have received from you, Sir, and to understand them and to reply to them. The impression that we got from them was this, that the procedure to be followed here would be the same that was followed before, namely, that at the plenary stage the Dominion Government would make its presentation and that would be followed by presentation from the provinces; and the formal presentation of the Dominion and of the Provinces would form the subject matter of the discussion by the steering committee of the agenda which should be prepared upon the basis of the material that was in the Dominion's and Provinces' presentations. If we did not think that that was the case we certainly would have seized the opportunity, as some of the other provinces did to-day, of using the responses to the welcome which you extended, Sir, as the occasion for a presentation of our views. In that event we would all go into the question of the Steering Committee and the forming of an agenda on an equal basis.

I think that my friend from Quebec, Mr. Duplessis, struck a very important note when he said that we must in these proceedings protect the susceptibilities of the various Premiers and provinces, but Mr. Duplessis, I am sure, would also be willing to have regard to our susceptibilities. May I say that we have for many months been under the impression, which now appears to have been an illusion, that a certain procedure was to be followed at this Conference, that there was to be a plenary session at which the Dominion Government would present its case—I do not know that there is any particular merit in reading it—and that then the provinces would present their general viewpoint and then the federal representations and the provincial representations would go before the Steering Committee, and upon that material the Steering Committee would use its judgment in deciding what sort of an agenda it should draw up.

But how is the Steering Committee going to exercise its judgment in regard to the agenda if it does not know what the provinces want to place before the Conference? It is not merely the Dominion, may I say with all respect, that

should have the prerogative of saying what matters it is desirable for the Conference to discuss. We are not in the position of having a printed statement of our views, but we would like to have those views before the Steering Committee when they are reaching a decision as to what the agenda will consist of because it may be that there are matters in our presentation that we would like to have considered, and if the Steering Committee is not cognizant of them I cannot see how they would be in a position to include them in the agenda. It was for that reason I seconded the motion moved by my friend from Saskatchewan, Mr. Douglas. Whether or not the Dominion's presentation is read, I think that every one of the provinces would like the opportunity of making representations to the Conference, and if there is no other way of doing it perhaps we might be permitted to revert to a previous order of business and make our representations under the heading of addresses in reply to the speech of welcome.

Mr. DUPLESSIS: Everything that my hon. friend has said is perfectly correct. The Prime Minister extended to us a most cordial welcome in a most courteous manner, and it was only appropriate that the ministers from the provinces should acknowledge his welcome. That is the way we proceeded. In doing so we made our position clear. We sought to establish the basic principles, so far as we are concerned, on which we thought an agreement could be arrived at.

I was elected in August and I received a most courteous letter from the Prime Minister about two months afterwards advising me that it had been decided to hold a Conference and then later I received his letter written in June of this year stating that the federal government were asking the provinces to do certain things and if we had any exception to what the federal government was proposing.

Then yesterday or the day before certain documents were given to the press.

I think that, according to every rule, a Steering Committee should be appointed first thing, and an agenda could then be agreed upon.

In 1936 I attended a Conference that was summoned by the Hon. Mr. Dunning. We discussed certain matters at that time. But this is a momentous Conference and we are willing and anxious to do everything possible within the framework of our constitution to reach an agreement. But let us have a Steering Committee to give us proper direction. The Steering Committee can decide on the agenda. Otherwise I think we would be putting the cart before the horse.

Mr. MACKENZIE KING: Mr. Duplessis has referred to a letter that he received in June outlining the purpose of the Conference and the methods by which it was proposed to proceed. It might help to clear matters somewhat if I were to read the letter. It was a letter I sent to each of the Premiers of the different provinces dated Ottawa, June 21, 1945, reading as follows:

My dear Premier:

The government have decided to convene a Dominion-Provincial Conference to meet in Ottawa on August the 6th and I am writing you to invite the participation of the government of

Then followed the name of the province. The letter went on:

The Federal government intends to put before the Conference a number of proposals following the general outline submitted to you in the Memorandum of Suggestions for the Agenda on May the 15th, 1944. Opportunity will be given equally to any Provincial government which wishes to submit a general statement or alternative proposals.

My colleagues and I feel that the Conference should make provision for careful consideration of the proposals submitted, rather than attempt to reach an agreement at the meeting beginning on August the 6th. To this end, it is suggested that a number of joint Dominion-Provincial

Committees be set up by the Conference to consider in detail each of the major proposals presented and any alternatives which may be put forward. The full Conference could then adjourn until all or most of such committees were in a position to report, at which time the Conference would reassemble with the object of concluding an agreement.

I shall look forward to hearing from you as soon as convenient whether the government ... will attend the Conference and, at the same time, I shall be glad to have any observations which you may wish to make upon the procedure suggested in this letter.

Yours sincerely,

(Signed) W. L. MACKENZIE KING.

May I say at once that such replies as we received were in the nature of approval of that letter and of the procedure therein outlined. There were no replies that I recall which indicated that objection was being taken to that procedure. Mr. Duplessis has asked me to read his reply to that letter. It is as follows:

Quebec, June 29, 1945.

My dear Prime Minister:

On my return to Quebec I acknowledge receipt of your letter of the 21st instant, informing me that your government had decided to convene a Dominion-Provincial Conference to meet in Ottawa on August 6th, and inviting the participation of the Government of Quebec.

As I advised you in my letter of October 13th, 1944, less than two months after my government took office,—the Government of the province of Quebec is entirely in favour of holding interprovincial conferences and sincerely desires to co-operate with all the provincial governments and with the federal government in the elaboration and adoption of the appropriate and constitutional measures capable of rendering full justice to everybody concerned.

Therefore, Mr. Prime Minister, the Government of the Province of Quebec will participate with pleasure to the proposed Conference.

Yours truly,

(Signed) M. L. DUPLESSIS.

I think that letter bears out what I have just said, that I am not aware of a reply from the Premier of any province which took exception in the slightest to the procedure that was set forth in the letter which was addressed to the different premiers. On the other hand there were some communications which specifically endorsed the method of procedure and made mention of the fact that the province concerned would desire, after the Dominion had presented its proposals, to present proposals on behalf of that particular province.

May I say in reference to the matter of the Proposals of the Government of Canada having been laid on the table this morning, that we had assumed, as I have already mentioned, in the light of the correspondence that this was the procedure which would be followed. As to the matter of courtesy, the courtesy was one of seeking to place before the press and the Conference at the earliest possible moment the Proposals which the Dominion Government had to present to the Conference.

As to the press, all hon. gentlemen at this table know that there is a courtesy that the press expects as well as everyone else and where there is a large amount of printing to be done, members of the press ask that they may have in advance copies of the communications that are to be made public subsequently.

So far as the press having received copies of these documents is concerned, I do not know at what time they were received, but certainly the reason for communicating them to the press was to oblige the press in that matter so that

they might have the material before them at as early a date as possible. I think myself that when documents of this kind are issued to the press there should be placed upon them—I do not know whether it was done in this case—a direction that the material is not to be released until after it has been made public. I cannot say whether that was done or not. But, after all, the public are interested in getting the material and I cannot see that there is any disadvantage in the public being given the information at the earliest moment possible, consistent with the proper procedure of the Conference itself.

I hope that we shall not take too long in discussing this matter. I do not wish to curtail discussion in any way, but we have a motion before us at the present time, which has been seconded, that we should proceed in the manner indicated.

If there are others who have further observations to make I would ask them to make them, and then I shall put the motion formally.

Mr. MACMILLAN: I have just one remark to make, Mr. Prime Minister. The situation as outlined by you was perfectly understood by the delegation from Nova Scotia. That was our understanding, as set forth in your letter, and my colleagues and I came here with the distinct understanding that after the usual amenities we were to hear from the different Dominion Ministers their proposals. It is true that they have been placed before us in book form. I have had no time to peruse them, and if I had to read them all, it would take me a considerable time. I think in common courtesy to the Ministers of the Dominion Government we should hear one word from them, as was the case when we met here in 1941. It is not necessary perhaps to read everything that is contained in these voluminous reports.

Mr. MACKENZIE KING: There is only one document on the Proposals of the Government of Canada.

Mr. MACMILLAN: It is not necessary to read them, but I think in common courtesy we should hear from the Ministers of the Dominion Government and then proceed. The position we find ourselves in here at the moment is that some of the provinces have made lengthy presentations and presented briefs, and others have not because of a misunderstanding.

I think we shall get along a great deal faster if we proceed in the manner suggested by the Prime Minister and his colleagues.

Mr. DREW: I am not going to extend what has resolved itself into something of a dialectical discussion. I see no occasion for anyone to express surprise such as the Premier of Manitoba expressed, but he then went on to say that he did not care whether this document was read or not. We have the printed booklet before us, and I have heard from those, particularly at the far end of the chamber, that they cannot hear everything that is said. If they feel that they are going to know more of the contents of this book by listening to its contents read by the ministers, then certainly they should be read.

The Premier of Nova Scotia has given one of the reasons for a Steering Committee when he said that the ministers might well say something to us without perhaps reading the whole statement. That is just one of the things a Steering Committee would decide.

On the question of courtesy being extended to any Minister, I certainly for one am raising no suggestion that we should not hear from them, but it does seem to me that it is going to be an unnecessarily lengthy procedure to have the Ministers get up and read word for word a printed document that has been so clearly placed before every one of us here.

The situation is very different from that of an exchange in discussion. We cannot pass a memorandum around to everyone here. We have not the facilities for placing something of this nature on every table. But this document is now

in the hands of everyone present. I am not going to argue further, but if there is no great feeling that the document should be read in detail, I again repeat that I think we should sooner get down to business if we took it as read, and then let the Steering Committee decide where we move from there.

Mr. MANNING: Just one observation, Mr. Prime Minister. It seems to me that there are two simple steps in implementing the procedure indicated in the letter of invitation from the Prime Minister and in his opening remarks this morning.

The first is that the Conference must proceed to set up a comprehensive agenda covering those matters which the Dominion Government and the Provincial Governments feel are matters necessary and vital to the discussions in which we have been invited to participate. I submit that if it is necessary for us to go through the Proposals that are being submitted by the Dominion Government in order to know part of the subject matter which the Dominion Government feels should be on the agenda, then by all means we should proceed to hear these proposals. Before any committee, a steering committee or an agenda committee, proceeds to suggest an agenda they certainly should know every item the Dominion government wishes to have placed on that agenda and every item any provincial government wishes to have placed on that agenda. If going through the written submission is vital to obtaining that information, then by all means let us proceed to do that.

As I understand it, the second step would be to set up appropriate committees to which the subject matters of the agenda, as finally agreed upon, would be referred. Obviously our first step is to know the subject matters that should go on that agenda.

Personally I have not had an opportunity to go through the Dominion submission. I am interested in going through it, not merely from the standpoint of the proposals and the arguments that may be presented in connection with those proposals, but primarily at this stage to learn the subjects which the Dominion feel should be on the agenda in order that we as the provinces may know what additional subjects we should suggest in order to give a picture as complete as we feel it should be before a subject matter is assigned to the appropriate committee.

Mr. HART: I really think that the point which has been raised is hardly of sufficient importance to warrant a long debate or to warrant the taking of a vote. I received a communication from you, sir, stating that the Dominion government would make certain proposals. I accepted the invitation to come here on the understanding that the Dominion government would make proposals to us. I think that we should be prepared now to listen to the ministers explain the proposals that they wish to place before us.

In view of the fact that sufficient notice was given to us I think it is only fair that we should do this. That was the procedure that was suggested. There was a point raised this morning by the Premier of Ontario. Perhaps he was right at that particular time, but I think at the present time it would be proper for the Provincial Premiers to ask the ministers to proceed with the presentations on a subject that they wish presented at this particular time.

Mr. MACKENZIE KING: I am not anxious to have any matter made one of division. Views have been expressed which I think have been understood by all present. Perhaps I may say that I think the view is that we should proceed in the manner that has been suggested and according to the motion made originally by the Premier of Prince Edward Island, seconded by the Premier of Manitoba. Is it your pleasure that that should be adopted?

Motion agreed to.

I have considerable sympathy with those gentlemen who think that this document is one of some length. However, there are obvious reasons why we should follow the course that has been suggested. However, before we begin to read this document there might be an understanding as to whether all of us would prefer to continue with the Conference this evening so as to expedite the reading of this document and the receiving of any other representations that may be made by the provinces.

It may be that gentlemen present have made engagements for the evening which they would not wish to break, but if it is agreeable to all present the reading of the Dominion government's proposals could continue through the evening after eight o'clock. I would think that that might be a helpful course to pursue. We would sit until six o'clock and adjourn until eight o'clock, which is the adjournment we are accustomed to in this chamber.

Mr. DUPLESSIS: As far as I am concerned I am agreeable to sit morning, afternoon and night. I came here for that purpose, and I want to proceed. I have no doubt the minister can read very well, but I can read also. No one could think of studying this matter without reading this document; we have to read the document if we want to understand these matters, but there is no necessity of somebody reading the document to us even though he may read very well.

I think I can say without exaggeration that I am willing to work eighteen hours a day if necessary, but I do not think we should waste time. Whoever heard of someone reading a book which we can read ourselves, especially when we are obliged to read it? What will the country think about us when we do that at a time when we have momentous problems to consider?

Mr. MACKENZIE KING: May I just draw attention to the fact that a motion has been carried, and it is apparent that we are all desirous of expediting matters. I have made the suggestion that we sit this evening and I have heard no opposition to that. May I assume that it is the wish of all present that we do that?

While I am speaking on these matters perhaps I should refer to to-morrow morning and the welcome which we all hope to join in that is to be extended to General Crerar. There will be a ceremony on Parliament Hill in the morning, either at eleven or eleven-thirty o'clock, I am not sure of the hour at the moment. I would suggest that the Conference resume its sittings in the morning at ten o'clock. The other proceedings are to be in front of the building and it will be possible for members to proceed from this chamber to the front of the Parliament Buildings or to the train if they wish to be there at the time of arrival. There would then be an opportunity of getting through some of the proceedings during the morning. We could then meet again in the afternoon at three o'clock. Mr. St. Laurent perhaps you could come over here to read the proposals.

DOMINION OF CANADA PROPOSALS

Hon. L. S. ST. LAURENT (*Minister of Justice*): Here are the proposals of the government of Canada.

NATIONAL PROBLEMS AND OBJECTIVES

For six years the energies of the Canadian people have been absorbed in the struggle against our enemies. With the end of the war in Europe and the approach of victory in the Pacific, we have begun to turn our efforts to new tasks. Now, while continuing the fight against Japan, we must complete the preparations which are necessary for the attainment of the aims we wish to achieve in the years of peace.

The preparations must be undertaken against the background of severe depression and the enormous dislocations of war. Under the conditions which existed for nearly a decade prior to 1939 the Canadian economy did not provide adequate opportunities for employment and enterprise; the deficiencies in the provisions for social welfare became strikingly apparent; the structure of government finance in our federal system developed basic strains and weaknesses. The war came before solutions to these problems were reached.

The difficulties of the depression were quickly submerged in the great national effort against aggression abroad. The winning of the war became a single dominant purpose to which all lesser demands and objectives were subordinated. The obstacles to united effort were removed by the willingness and patriotic desire of all groups to accept sacrifices and restrictions in order to ensure victory. The federal government was responsible for the organization of the national effort and there were no limitations upon its power to do so. These circumstances and the co-operative spirit of the provincial governments made it possible to overcome, or temporarily to set aside, the factors which have impeded the development of solutions to difficulties of the past.

The accomplishment of our aims in the post-war period must, no less in war, be an object of national endeavour. Success in the attainment of high levels of employment, increased welfare and security, is dependent upon the fruitful co-operation between all governments and groups in the country. It is the responsibility of government to pursue policies that create conditions in which the initiative, energy and resourcefulness of individual citizens can achieve rising standards of life. In Canada, under the federal system, the governments of the Dominion and the provinces both contribute to the formulation of such policies. The functions of each are prescribed by the constitution but these must be adapted to practical considerations that arise out of changing needs and circumstances.

The establishment of the best possible basis of Dominion-provincial co-operation is an essential part of a satisfactory reconstruction programme. The determination of this improved basis must be worked out with reference to the principal economic and social problems that will confront the Canadian people in the post-war period. The problems arising out of dislocations of the war are the most immediate and challenging.

The demonstration of the potentialities of the Canadian economy has been one of the outstanding features of the past few years. In a relatively short time national production was doubled. Nearly one-half of this greatly expanded output was devoted to war. In spite of this large effort, the general level of civilian consumption was not reduced; for the lower income groups it was significantly increased. These achievements were accompanied inevitably by far-reaching changes in virtually every phase of activity—changes which are both a measure of the new possibilities and of the problems which will prevail in the post-war period.

At the peak, the number of persons gainfully occupied and in the service of the armed forces exceeded five million. This represented an increase of nearly 1,400,000 above the number at work in 1939. After making allowance for those who will wish to retire and for the withdrawal of many married women from the labour force to maintain a high level of employment we should have opportunities for about a million more jobs in peacetime production than existed before the war. This is the magnitude of the task involved in the achievement of a high level of employment in the post-war years.

Opportunities for useful work and markets for agriculture and other primary industries are dependent upon remunerative outlets for the goods and services that are produced. At the height of the war effort almost one-half of the Canadian people obtained their incomes from the expenditures of the federal government. As wartime government disbursements decline, opportunities and

remunerative outlets must be found in the expansion of expenditures directly made by all the individuals and enterprises of the country for civilian needs and civilian purposes. The increased expenditures that replace wartime outlays will have their source in the sales made into the export market, in a rising level of consumption, in private investment for the expansion of productive facilities, and in public investment for improving the productiveness of our natural resources and the construction of useful public works. The flow of expenditures in all these categories must be substantially larger and more stable than before the war if a high level of peace-time employment is to be achieved and maintained. The creation of conditions in which adequate and balanced increases may be assured is the central task of reconstruction policy.

Our wartime accomplishments have resulted in a notable expansion of Canadian productive facilities in manufacturing, in agriculture, and in the production of raw materials. The greater part of this expanded capacity has been employed in the production of supplies shipped abroad to help meet the military requirements and the urgent civilian needs of our allies. Some of this new capacity will find peacetime outlets in the home market. In many cases, however, the expansion has been on a scale that far exceeds the possibilities of domestic consumption. The events of the war have, therefore, significantly increased the traditional dependence of the economy on foreign markets. The permanent extension of these markets is a major aim of Dominion policy.

First of all, the government will continue to press actively for wide collaboration among countries for the reduction and removal of world trade barriers. Even if this purpose is accomplished it will not meet all the problems with which we shall be confronted. In the immediate future and for some time after final victory in the Pacific indispensable customers, particularly the United Kingdom and countries on the continent of Europe, will not be able to make full cash payment for goods they will wish to buy from us. In order to alleviate the sufferings of liberated peoples, to help in the rehabilitation of devastated economies, and to establish the flow of peacetime trade upon which we are dependent, Canada should be prepared in co-operation with other countries to grant further assistance and loans. Also, Canadian participation in the international monetary agreements are likely to involve extensions of credit. These are national responsibilities which the federal government must necessarily assume. By doing so we shall fulfill our international obligations and at the same time ensure adequate and continued opportunities for employment at home. It is essential that the federal treasury be in a position to carry these burdens.

We must look to a very considerable rise in the general level of consumption at home for the employment of manpower and resources released from war. The expansion in productive facilities, the increased skills of the population and the improvements in production methods have created a new range of possibilities. The full realization of these possibilities in advancing the standard of life of every group is the outstanding challenge to our economic system and government policy. While federal government expenditures remain high during the period of the Japanese war and demobilization, consumption may be expected to increase in the full amount to which goods and services can be made available. In fact, in this period some restrictions will continue to be necessary and the purchasing power of consumers will have to be safeguarded by continued controls against inflation. When scarcities have disappeared and the forces of inflation have subsided the real problem of maintaining an adequate level of expenditures on consumption will arise.

The achievement of a greater stability in the flow of consumption expenditures is dependent to a significant degree, on the policies that are adopted to protect the basic incomes of the groups whose position is most precarious.

The federal government has already taken substantial steps to this end. Unemployment insurance, family allowances, pensions and other assistance to war veterans, and the policy of farm floor prices are a substantial contribution to social security. These will give strong support to consumption expenditures, and consequently to employment, whenever the national income tends to fall. Important gaps, however, remain to be filled before we have achieved that measure of increased welfare and security which past experience and the possibilities of the future have shown to be desirable. How these additional provisions are to be accomplished, not merely in a few provinces, but in every province and for all Canadians, is the problem we must consider.

Expanded export markets and a rising and more stable level of consumption constitute the basic framework of conditions under which private enterprise may be relied upon to provide assured opportunities for employment. These circumstances will also create the basic incentives for the expansion of private industry. It is highly important that the incentives be allowed to be effective. In the past the falling off in private investment has always been a major factor in the causes of general unemployment and depressed markets. The attainment of high levels of employment and remunerative markets will largely depend, after the war, upon the realization of an adequate volume of new expenditures in industrial and commercial buildings, in equipment, in the development of better processes, and in the development of natural resources. The great deficiency in the supply of housing offers an immense field for new private investment. Large outlays are necessary for the improvement of equipment and facilities on farms. The sources of capital are ample. Where it is not readily available for desirable purposes, the federal parliament has enacted measures whereby credit may be obtained at favourable rates.

The creation of conditions under which the initiative and skill of private enterprise will result in new investment on a scale far exceeding pre-war levels is one of the principal problems of reconstruction policy. The tax policies of all governments can be a fundamental factor in the removal of undesirable and unnecessary obstacles. The elimination or reduction of taxes on costs, the removal of tax penalties upon enterprise, and the effect of taxes upon the taking of risks are basic considerations in determining a satisfactory system of Dominion-provincial financial relations.

The total amount of new investment undertaken in the economy includes the capital expenditures of governments as well as those of private industry. Government expenditures on the improvement of transportation, on the conservation and development of natural resources, and on the construction of necessary and useful public works, have played an important role in the rapid growth of the country. In the post-war period there will be ample scope for a far-sighted programme of public investment. Many desirable projects have had to be deferred during wartime. New developments and larger needs will require substantial outlays on transportation facilities. Activities which will protect and increase the productivity of the resources of the farm, forest, mines and fisheries have large constructive possibilities.

The purpose should not be to find a "cure-all" for unemployment in huge expenditures on public works. Rather, the problem is one of devising a sound and consistent programme of public improvements which will expand the productive wealth of the community and widen the opportunities for enterprise and employment. Also we must seek to manage the expenditures on such a programme so that they do not compete with private activity but will supplement it and contribute to the stabilization of employment whenever private employment declines. Past performance has fallen short of these objectives. Effective reconstruction policy must include a new and more logical approach. This will require a better understanding of the functions and a more workable division of activities in the sphere of public investment between the Dominion,

the provinces and municipalities. It will require also improved methods of Dominion-provincial co-operation and appropriate financial arrangements with respect to the broad fields and specific projects where there is both a national and provincial interest.

To achieve the large objectives we must set for export trade, domestic consumption, private and public investment will require a closely integrated effort. The general principles guiding this effort must be explicit and clear as they will form the framework within which the specific plans and arrangements must be worked out. To this end the Government briefly sets forth the basic principles underlying its proposals.

In familiar terms, our objectives are high and stable employment and income, and a greater sense of public responsibility for individual economic security and welfare. Realization of these objectives for all Canadians, as Canadians, is a cause in which we would hope for national enthusiasm and unity.

The Government has clear and definite views on how these objectives can be attained. These views may be summarized very briefly as,

- first*, to facilitate private enterprise to produce and provide employment;
- secondly*, to promote bold action by the state in those fields in which the public interest calls for public enterprise in national development;
- thirdly*, to provide, through public investment, productive employment for our human and physical resources when international and other conditions adversely affect employment; and
- fourthly*, to provide, on the basis of small regular payments against large and uncertain individual risks, for such hazards, and disabilities as unemployment, sickness and old age.

Because Canada is a federal state these responsibilities are shared by the federal and provincial governments. This division of responsibilities should not be permitted to prevent any government, or governments in co-operation, from taking effective action. To devise a working co-operative arrangement to a common end, in harmony with our federal system, is the main purpose of this Conference.

It is with these considerations in mind, and in search of common ground for agreement, that the Government presents its proposals. These proposals assume a broad federal responsibility, in co-operation with provincial governments, for establishing the general conditions and framework for high employment and income policies, and for support of national minimum standards of social services. They also assume that provincial governments should be in a financial position to discharge their responsibilities adequately.

To achieve a higher standard of living and a greater degree of security for Canadians the federal government wishes to encourage private investment and employment. If private capital is to provide new investment and employment it must be afforded a reasonable opportunity to obtain an adequate return. Taxation is of major importance in connection with this, and the Government believes that its taxation proposals are essential preliminaries to any major reforms in business taxation.

In addition to changes in business taxation policy which the Dominion should be put in a position to make, there are a number of positive steps which the Government plans to take with the object of assisting in the provision of employment. The most important of these are broad policies to stabilize markets and purchasing power through export credits, floor prices, domestic public investment, and extended social services. The Dominion programme under these heads will necessarily involve large expenditures.

In periods of declining business activity, arising perhaps from depressions abroad, it is proposed that these expenditures will be boldly expanded. Tax rates must be reduced at the same time, but whether this is done or not revenues will obviously fall off sharply and large deficits will result. The Government

is not only prepared to accept these but will deliberately plan for them in periods of threatened depression in order to give the economy a stimulus and relieve unemployment. As a corollary the Government will also plan for substantial budgets and debt retirement in periods of high business activity. This is simply saying that the Government will budget for a cycle rather than for any one fiscal year, and that the Government will design both its spending policies and its tax policies throughout the cycle to levelling out the deflationary valleys and inflationary peaks. The great growth in government revenues and expenditures made necessary by the war makes a responsible policy of this sort an obligation, and at the same time, with our increased knowledge of fiscal techniques, makes it a practical policy in the sense that it can have a really significant effect on the business cycle. The modern governmental budget must be the balance wheel of the economy; its very size to-day is such that if it were allowed to fluctuate up and down *with* the rest of the economy instead of deliberately *counter* to the business swings it would so exaggerate booms and depressions as to be disastrous.

Another factor of general importance which we must bear in mind in considering the future roles of governments in Canada is our new international position and its obligations. Canada has earned a position in the foremost ranks of world powers and we are assuming obligations on an unprecedented scale in common with the other United Nations to restore welfare and security to the world. This is a policy which commands the universal support of the Canadian people, since it is broadly realized that no country has more to gain from the achievement of international order and prosperity or more to lose from failure than Canada. It is "an essential corollary of our proudly won role that the Canadian government will fill that role adequately and honourably and that Canada as a united nation will pull its full weight in the uphill struggle before us.

II

TRANSITION MEASURES

Economic Controls

The White Paper on Employment and Income sets forth the broad lines of government economic policy during the Japanese War. As the White Paper points out "During this period the Dominion Government, under its wartime powers, will have the central responsibility and authority for initiating and carrying out reconstruction policies, as well as for the continued prosecution of the war".

In the Reference Book on Economic Controls there appears a summary and discussion of some of the economic problems which it is reasonable to expect will exist throughout Canada during the Japanese War and the immediate post-war period. This Reference Book has been prepared as a factual background for the proposals by the Dominion Government for action in the transition period following the war. It covers such subjects as price and wage controls, subsidies, supply and distribution controls, rental controls, labour regulations, selective service controls, export and import regulations and rationing.

The large and complex system of economic controls established by the Dominion was intended to deal with the war emergency and to assist in the efficient prosecution of the war. The measures that have been adopted were made necessary by the extraordinary demands for labour and materials for war purposes and by the danger of disastrous inflation under wartime conditions. The nature of the great emergency made it necessary that the Governor in Council should from day to day exercise the powers conferred by Parliament.

The emergency arising out of the war will not end when actual hostilities cease, or even when a formal declaration of peace comes to be made. The extraordinary measures necessary during the war period cannot suddenly be revoked

without serious dislocation of the national economy. There must be a reasonable time allowed for orderly decontrol. Rehabilitation of men in the armed services, reconversion of war plants, relief of areas devastated by war and participation in emergency international commodity controls are all emergency requirements arising out of war and call for continuation of national controls for a temporary period. The requirements and duration of this emergency cannot be defined in advance; they must be continuously examined and dealt with in the light of conditions as they develop. Some of the existing enactments establishing necessary controls fall either in whole or in part—under normal conditions—within the authority of the provincial legislatures as relating to Property and Civil Rights in the Province, while others fall within the enumerated powers of Parliament under s. 91 of the British North America Act as being in relation to Defence, Regulation of Trade and Commerce, Navigation and Shipping, Railways, Criminal Law, Currency, Banking, etc. The Dominion Government entered the field of provincial jurisdiction reluctantly, but was forced by its responsibilities in the war emergency. It is the Dominion Government's intention to retire from this field as quickly as its responsibilities to avoid chaotic disturbances arising from the war permit.

Dominion Government's Policies of Decontrol

In the course of retiring from the field of provincial jurisdiction it is the declared policy of the Dominion Government to remove wartime controls as speedily as decontrol can be safely undertaken. For greater particularity, it is the policy of the Dominion Government—

- (a) to remove wartime price and wage controls as soon as the danger of a war-generated inflation is past;
- (b) to discontinue as soon as possible all wartime regulations of the Dominion Government affecting the jurisdiction of provincial governments over minimum wages, hours of work and holidays with pay;
- (c) to eliminate wartime subsidies related to the stabilization policy when inflationary pressures begin to ease;
- (d) to remove wartime controls over the production and distribution of commodities and services and special wartime export and import controls as soon as supplies of materials and labour for continuing wartime requirements and for civilian production are reasonably adequate to permit civilian supply to satisfy civilian demand at reasonable prices and as soon as world shortages no longer require Canada to undertake commodity controls;
- (e) to remove rationing of civilian goods whenever supplies of rationed commodities which are made available for civilian use are sufficiently great (even though they may not be sufficient to meet civilian demands fully) to permit the elimination of rationed distribution;
- (f) to remove rental and occupancy controls as soon as available housing is reasonably adequate to meet existing housing demands without a sudden inflationary rise in rents;
- (g) to remove wartime selective service restrictions progressively as the supply of labour more nearly meets the demand;
- (h) following consultation with the provinces, management and labour, to make appropriate amendments to the Wartime Labour Relations Regulations for their continued application for as long as deemed necessary in the emergency period and further to consult with the provinces, management and labour on appropriate measures to be provided for by Dominion and provincial legislation.

Constitutional Responsibility to Enact and Continue the Controls

In an emergency such as war authority of Parliament in respect of the legislation relating to the peace, order and good government of Canada must, in view of the necessity arising from the emergency, displace the authority of the provinces in relation to a vast field in which the provinces would otherwise have exclusive jurisdiction.¹ Lord Haldane, delivering the opinion of the Privy Council in the leading case, pointed out that questions may arise by reason of national emergency which concern nothing short of the peace, order and good government of Canada as a whole. The overriding powers enumerated in s. 91 as well as the general words at the commencement of the section may then become applicable to new and special aspects which they cover of subjects assigned otherwise exclusively to the provinces.

The Privy Council also considered the period during which this emergency power of Parliament continues. Lord Haldane pointed out that when war has broken out it may be requisite to make special provision to ensure the maintenance of law and order in a country, even when it is in no immediate danger of invasion; that steps may have to be taken to ensure supplies and to avoid shortage, and the effect of the economic and other disturbance occasioned originally by war may thus continue for some time after it is terminated.

Action by Federal Government Necessary During Transition

Owing to the likelihood of continuing acute shortages and in order to hasten the return to normal conditions, it will be necessary during the transition period to exercise certain economic controls on a national scale.

If the national economy is to be safeguarded during the transition period while shortages continue, a situation of uncertainty and confusion must clearly not be allowed to develop. In order to prevent this it is the Dominion Government's intention to take steps which, while safeguarding the important constitutional rights of provincial governments in this field in their entirety, will permit an orderly process of decontrol and transition from the emergency conditions of war and arising out of war to peace.

Veterans Re-establishment

Uppermost in all our minds to-day is the re-establishment of our returned men and women in civilian life. That this re-establishment should be generous and prompt, is a subject on which there will be enthusiastic unanimity. The Dominion has already made provision to meet this responsibility more comprehensively than any other country in the world, but will welcome the co-operation of provincial governments in meeting the problem in which such a large sense of common obligation and common interest exists. A brief outline of the measures taken will be of interest. It is unnecessary to add that these measures will be expensive. The obvious implications of the necessary federal financial commitments for this purpose, as for other war and defence purposes, must be considered in determining the future of Dominion-provincial financial relations.

The Canadian rehabilitation programme provides the veteran with liberal cash grants during the immediate post-discharge period to assist in the transition to civilian life. It protects his right to his pre-enlistment job, and offers him the training and financial assistance necessary to re-establishment in employment, in business, in farming or in his trade or profession. And, it offers, as well, certain advantages in the nature of social security benefits for his civilian days. This section can only outline the main features of the rehabilitation programme.

¹ See *Reference as to Validity of the Chemicals Regulations*, 1943 S.C.R.1., per Duff C.J. at p. 10, summarizing the judgment of the Privy Council in the case of *Fort Frances Pulp and Power Co., Ltd., v. Manitoba Free Press Co.*, 1923 A.C. 695.

Cash Grants

Every honourably discharged veteran is paid a cash gratuity based on the length and theatre of service. The Basic War Service Gratuity amounts to \$7.50 for every completed 30-day period of qualifying service plus 25 cents for each of those days served overseas. In addition to this basic gratuity, veterans receive a Supplementary Gratuity of 7 days' pay and allowances, including dependents' allowances, for every six months' service overseas. Over and above the gratuities, veterans receive a Rehabilitation Grant of one month's pay of rank and a clothing allowance of \$100.

Thus a private who served one year in Canada and four years overseas would receive a Basic Gratuity of \$810, a Supplementary Gratuity of \$154, a Rehabilitation Grant of \$45 (plus dependents' allowance if any), and a clothing allowance of \$100—or a total of \$1,109.

Furthermore, if the discharged man does not wish to avail himself of the generous provisions that have been made for him to take vocational training or attend university, and if he does not take advantage of the opportunities available for settlement on the land, he may use a Re-establishment Credit of an amount equal to his Basic War Service Gratuity. This is an outright grant, not a loan. It may be applied for at any time within 10 years after discharge and can be used for any one or more of a number of purposes which will assist in his re-establishment—to assist in the purchase of a business, the building of a home or the purchase of furniture; for the improvement of his home; for the purchase of tools required in his trade or the instruments or equipment required in his profession; as capital for his business; or for government insurance.

Employment Aids

Veterans who left a job in industry or commerce to enlist are assured of the right to have their old job back by the Reinstatement in Civil Employment Act. The Act requires employers of persons accepted for the Services to reinstate these employees after discharge under conditions no less favourable than they would have enjoyed had they remained in their employment instead of entering the Services. This means that veterans, both men and women, are to be put back into their old employment with full seniority rights, that the period of service in the Forces is to count in determining pension rights as an employee and in arriving at other benefits.

The National Employment Service of the Unemployment Insurance Commission will be available to assist all veterans who are seeking jobs. In each local employment office there is someone to register and generally look after the ex-service personnel on their first visit to the office.

Under the rehabilitation training programme, a veteran can be trained for a period of up to 12 months in any trade or occupation that will fit him to earn a living, or better living than he earned before. The allowances while training are \$60 a month for a single man, \$80 for a man and wife, with allowances for dependents.

If he wishes to go to university, he can be given as long in university as he was in the service—month for month. In addition to his living allowance, his fees are paid.

If he wishes to settle on the land, he is given by the government, an equity in his property equal to one-quarter of the cost of land and buildings plus an allowance for stock and equipment. In the case of a man who settles on a farm which cost \$6,000, including stock and equipment, his grant would be \$2,320.

If he wishes to take a small holding, similar benefits are available to him; but if he does either of these things, takes training at trade or university level,

or settles on a farm or small holding, he does not receive his full Re-establishment Credit. The Re-establishment Credit is meant to help those who do not wish to avail themselves of training or land settlement.

This training programme is free, with no strings attached provided the veteran needs it for his re-establishment. The farm settlement programme will be confined to those who have an agricultural background, and the small holdings to those who have a regular job or occupation in the vicinity. Small holdings are similarly available to commercial fishermen.

Social Security

All those who serve are protected against unemployment for a year after leaving the service. If they are fit for work but there is no work available, they are entitled to out-of-work benefits of \$50 a month for a single man, \$70 a month for a man and wife, with allowances for dependents.

After a veteran has completed 15 weeks in insurable employment, he will be given credit under the unemployment insurance scheme for all time spent in the forces after June 30, 1941.

For war-disabled veterans who do not come under the Unemployment Insurance Act, a special placement service has been provided.

If the veteran is discharged on account of sickness or wounds resulting from his service and is still in hospital, pay of rank with dependents' allowances is continued for one year so that the income going into the home is precisely what it was while he was still in the Service. This may be continued for two years if he is entitled to pension.

Any pensioner is entitled to medical treatment with allowances for his pensionable disability for life, irrespective of his financial circumstances.

Opportunity is given under the Veterans' Insurance Act to take out up to \$10,000 life insurance without medical examination, at reasonable premiums.

Those who go into private business, or who start in their profession, and those who go on farms, may receive maintenance grants, \$50 for a single man, \$70 for a man and wife, with allowances for dependents, while they are awaiting returns from their enterprise, in addition to any assistance they receive by means of the Re-establishment Credit.

In short, the Dominion Government's rehabilitation programme provides an umbrella coverage against sickness, against accident and against unemployment. It provides an opportunity to learn a trade or a profession so that the education of those who served will not be curtailed because of lack of funds. It provides assistance in acquiring a home in town or country, in furnishing a home. It provides assistance to those who want to become established in their own business or profession. It is an attempt to try to place the men and women of the Services in the position in life in which they might have expected to be had they remained at home instead of taking up the torch of freedom on our behalf.

Emergency Housing

One of the most pressing requirements of the returned men, and indeed for large numbers of our population, is adequate housing. The concentration of the whole economy during the past five years on the war effort, which has resulted in the deferment of new housing construction, added to the unsatisfactory situation in many respects which existed prior to the war, has produced a critical housing situation. While the Dominion Government attaches great importance to housing as part of a long-run programme of employment and public welfare, it considers it to-day a matter of urgent priority. Under the Canadian system of divided jurisdiction in which fundamental matters of property and civil rights lie within the control of provincial governments, the desired objectives can be fully attained only through co-ordinated action at all levels of government.

The main instrument of Dominion housing policy is the National Housing Act, 1944. It empowers the Government to participate on a comprehensive scale in all phases of a national housing programme. In putting forward proposals in the field of housing, the Dominion will therefore seek to carry out the broad purposes of the Act.

During wartime and under wartime powers the Government has found it necessary to take various types of emergency housing action. A Crown corporation—Wartime Housing Limited—is engaged in the direct provision of rental housing. Originally houses were built for rent to workers in war factories. More recently the activities of the corporation have been extended to meet the needs of ex-servicemen and ex-servicemen's families in congested urban centres for low rental accommodation. To make more effective use of existing shelter and to conserve scarce materials, large homes were leased by the Government and converted into multiple family dwellings. The Government has also offered to put various types of buildings at the disposal of the municipalities for use as temporary shelter. While not part of its housing programmes as such, houses are being erected on farms and small holdings on the outskirts of cities and towns for sale to veterans under the Veterans' Land Act.

These direct activities, which make an important contribution to the current supply of available accommodation, involve inter-governmental relationships and raise questions which it may be opportune to discuss at the Conference. Apart from housing provided under the Veterans' Land Act, however, these direct activities are essentially of an emergency character and it is not part of Government policy to continue them when the conditions which made them necessary no longer prevail. The objective is to put a well integrated and permanent housing programme into full operation with the least possible delay.

While this programme is encountering difficulties due mainly to the physical limitations imposed by the available supply of men and materials, substantial progress is being made. As competing war demands taper off and finally disappear and as the concerted efforts of the Government to divert men and materials to construction bear fruit, the rate of building will accelerate. It is important therefore that steps should be taken as soon as possible to clarify the relations between the various levels of government in the housing field and to establish the conditions within the provinces and within the municipalities that are so essential to the fullest implementation of a sound national housing programme.

To this end the Dominion is putting forward suggestions for consideration at the Conference relating to community planning, building by-laws, low rental housing projects, slum clearance and training programmes in the field of housing construction and community planning. There are, of course, many other phases of the national housing programme in which the Dominion is actively engaged but these matters appear to be of a character which does not seem to necessitate proposals by the Dominion to the provincial governments at the present time.

Community Planning

It is recommended that the provincial governments immediately review their present enactments and take the steps necessary to ensure that adequate community planning is carried out and put into effect through zoning regulations and other appropriate local ordinances. For its part the Dominion is prepared to co-operate under the terms of the National Housing Act in the establishment and development of a continuing programme of community planning by the provincial and municipal governments.

The general advantages of adequate community planning need not be elaborated at this time. It is sufficient to draw attention to the direct relationship between such planning, or the lack of it, and the cost of providing housing. To illustrate, reference may be made to the financing provisions of the National Housing Act.

In the case of houses built for owner occupancy and ordinary rental purposes, the Government participates with the approved lending institutions by supplying 25 per cent of the loan money at 3 per cent interest and gives the lending institution a partial guarantee against loss. This combination of government money and government guarantee enables lending institutions to advance a higher percentage of the value than they would otherwise be able to do, to charge lower rates of interest to the borrower and to lend for longer periods. The usual term of a loan is twenty years but this may be extended to thirty years for an individual house and to twenty-five years for a rental housing project which is built in a community that has been adequately planned and zoned. The effect of such an extension is to enable the home owner to carry a 25 per cent greater loan without increasing his monthly payments, and to lower the monthly payments for the owner of a rental project by approximately 8 per cent.

In the case of a low rental housing project, the Government is prepared to make direct mortgage loans up to 90 per cent of the value at 3 per cent interest with payments extending over the useful lifetime of the project, subject to a 50 year limitation. The effect of this type of financing provision in respect of housing of reasonable quality is to lower the interest and principal charges by about \$10.00 per month as compared with ordinary methods of finance. Before such loans are made the Minister of Finance has to be satisfied that the area in which the project is to be situated has been adequately planned and that zoning regulations are sufficient to assure the suitability of the area throughout the term of the loan.

To encourage life insurance companies and other financial institutions to take advantage of the powers given to them by the Act to invest up to 5 per cent of their assets in Canada in low and moderate rental housing projects, the Government is prepared to guarantee a net return on their investment of $2\frac{1}{2}$ per cent per annum. When it is borne in mind that such organizations can invest money at a somewhat lower return than that which the ordinary landlord finds necessary, it is apparent that the direct operations of financial institutions in the field of rental housing will produce economic rentals comparable with those which will obtain under the other financing provisions for rental housing contained in the Act. Again there is a condition that "the project shall be constructed in accordance or in harmony with an official community plan satisfactory to the Minister (of Finance)."

The reason for the emphasis upon adequate community planning will be clear. Only if there is assurance of a continuing satisfactory environment is it possible to grant financing for high proportions of value at low interest rates over long periods of years. Under present circumstances of acute housing shortage it may be necessary to waive certain of these requirements with respect to low rental projects where provinces and municipalities have failed so far to take necessary action or to be satisfied with somewhat less than adequate community planning. The full advantages of lower cost and longer term financing cannot be made available to the public however, until conditions are established whereby the investor in housing, Government or private, can be assured against premature deterioration due to adverse environmental changes.

Community planning lies entirely within the sphere of provincial jurisdiction. Nevertheless the Dominion has a direct interest in promoting action and is prepared to co-operate and give assistance to that end, by putting into full effect the following provisions of the National Housing Act:

"Section 25.

For the purpose of carrying out his responsibility under this Part, the Minister may cause

- (e) information to be prepared and distributed and public lectures to be delivered to promote an understanding of the advisability of, and the principles underlying land, community and regional planning;
- (f) studies to be made of land utilization and community planning and arrangements to be made for the furnishing of information and advice with regard to the establishment of community planning agencies, and the planning of regional areas, communities and subdivisions, in co-operation with any local or other authority having jurisdiction over community planning and land subdivisions or otherwise with a view to promoting co-ordination between local community planning and the development of public services; and
- (g) generally such steps to be taken as he may deem necessary or advisable to promote construction of housing accommodation which in his opinion is sound and economical and to encourage the development of better housing and sound community planning."

In particular the Dominion is prepared to support in principle the establishment of a community planning institute for Canada, or some similar body, for the co-ordination of planning and action in this field on a continuing basis.

At six o'clock the Conference took recess.

EVENING SESSION

The Conference resumed at eight o'clock.

Mr. ST. LAURENT: Just before dinner we were dealing with community planning and I will now proceed with the section having to do with training programmes:

Training Programmes

The Dominion Government is prepared to discuss with the provinces how it may best assist in educational programmes designed to provide trained personnel in the housing and community planning fields.

Part V of the National Housing Act authorizes the Minister of Finance with the approval of the Governor in Council to

- "(e) make provision, in such manner as he deems advisable, directly or in co-operation with any other department or agency of the Government of Canada, with the government of any province or with any university, educational institution or person, for promoting training in the construction or designing of houses, in land planning or community planning or in the management or operation of housing projects."

Building Codes and By-Laws

In order to remove unnecessary and undesirable impediments to housing construction while retaining the advantages of minimum building standards, it is recommended that the provincial governments, acting together and in

collaboration with the municipalities take effective action to bring about greater uniformity in building codes and by-laws within provinces and as between provinces, and consider the adoption of a standardized building code.

The government's policy of furthering the development of better housing and lower construction and financing costs depends to a very considerable extent upon the building codes and regulations which are applicable to housing which it finances. Because building standards in certain parts of the country are either inadequate or not properly enforced, it is necessary to provide minimum standards and specifications for government financing, in order to guarantee that such housing shall not only be of a desirable minimum quality but shall also be of a sufficiently permanent character so that protection is afforded to longer term finance.

If the provinces and the municipalities themselves were in the position where their minimum standards of construction and materials were of a comparable character to those imposed as a condition of government finance, not only would it be possible to facilitate the process of government finance immeasurably but there would also be room for reasonable regional variations in standards where such are desirable.

Another phase of the problem relates to building standards which are in force in different parts of the country and which are either too severe or are antiquated and out of date. The necessity of complying with standards such as these often leaves no room for the use of alternative building materials and building methods, which might be effectively used to bring about substantial reductions in costs without lowering the quality of housing.

Accordingly, it is desirable that the provincial governments should not only take action to provide minimum standards for building but should also consider the adoption of satisfactory standards at a somewhat higher level, beyond which no local building code would be allowed to go.

Low Rental Housing Projects

In order that the housing needs of low income families may be provided for to the maximum extent it is suggested that the provincial and municipal governments give consideration to the means by which they may best assist in carrying out the provisions of the National Housing Act relating to low rental housing projects.

Apart from the contribution which may be made by sound community planning and adequate construction standards to the successful financing of low rental housing projects under the National Housing Act, it may be useful to explore at the Conference certain other aspects of the legislation with which the provinces and municipalities are directly concerned, including rent reduction funds, land acquisition and local taxes.

As already indicated the effect of dominion participation in the financing of low rental housing projects is to produce a substantial reduction in economic rentals, thus bringing satisfactory housing within the reach of many who could not otherwise afford it. Payment of family allowances will go far to enable low income families to meet the cost of additional rooms for children. Nevertheless there will be some for whom even the reduced economic rentals are too high. To provide for such cases, a limited dividend housing corporation may accept contributions to a rent reduction fund from a provincial government, municipality, social agency, trust or person to be used only for the purpose of reducing the rentals that would otherwise have to be charged.

Land acquisition costs and local taxes are of major concern in the operation of a low rental housing project, and it is desirable that both be kept to a minimum. Each project is a separate undertaking but it would be useful to work out principles which might be of general application.

While it may not be desirable to undertake slum clearance projects during a period of acute housing shortage it is recommended that the provincial governments and municipalities proceed immediately to make plans and preparations so that such projects may be put in hand as soon as the serious shortage of materials and labour is overcome.

Under the National Housing Act, the Dominion government may pay half the net cost involved in a slum clearance project, net cost being defined as the amount by which the cost of acquisition and clearance of the land (including cost of condemnation proceedings) exceeds the price at which the land so acquired and cleared is sold to a limited dividend housing corporation or to a life insurance company for the erection of low or moderate cost rental housing development.

The Conference will provide an opportunity to discuss the conditions under which a Dominion grant may be made and to clarify the respective positions of the Dominion, provincial and municipal governments.

INDUSTRIAL RECONVERSION AND DISPOSAL OF SURPLUS WAR ASSETS

In addition to, and in some ways complementary to, veterans' re-establishment and housing, the most urgent transitional period problem is industrial reconversion and disposal of surplus war assets. Production for war requirements has necessitated an enormous expansion in Canada's industrial capacity. Manufacturing and production facilities generally had to be converted to war use, and in addition existing plants had to be extended and new plants constructed. This expansion involved commitments on the part of the Dominion government of some \$850 millions and included the purchase of some 100,000 machine tools by or through the Department of Munitions and Supply. As the major customer of Canadian war industry, the government has acquired title to large quantities of war goods which are now becoming surplus in increasing quantities, and which will amount at the end of the war to the largest inventory ever held by any single body in Canada.

With the termination of the European war and the approach of final victory over Japan, Canada faces the problem of turning its munitions capacity and war stores to peacetime uses. It is a problem which affects all parts of the country in varying degrees. Accordingly, the Dominion government has set up a Department of Reconstruction to formulate plans for industrial development and conversion. A number of provincial governments have likewise created departments of reconstruction and planning. Having regard to their mutual interest, the co-operation of all governments in Canada is essential for an orderly conversion of industry to peacetime production.

Industrial Reconversion

The industrial reconversion policy of the Dominion Department of Reconstruction is to assist industry to revert to civilian production with as little dislocation as possible. Industry itself must take the initiative in the development of post-war plans, and the role of the department will be that of providing all possible assistance to facilitate reconversion. Since the problems will vary in different provinces, the co-operation of provincial authorities will be of value in meeting them.

While in the first instance the matters which concern the Director General of Industrial Reconversion relate directly to details of conversion of war plants, there are long-term problems which will also be his concern, and which will require contributory action. For example,

"Industries which fluctuate in activity during the course of a calendar year might be encouraged to seek a more even rate of activity if it appeared that this would offer less disturbance to both the labour and

supply market; or industries which can only function on a seasonal basis might be encouraged to contribute to economic stability and efficiency by establishing as constant and secure conditions of employment as possible."

Reconversion on the part of industry involves the quick settlement of war contracts and the clearing of plants. Machinery has been set up for the final renegotiation of war contracts and termination of war orders. Arrangements have also been developed whereby civilian production may be resumed by clearing from plants the government-owned equipment or materials which are not required for such production. These steps were required to meet the first problems of reconversion.

Depreciation Allowances

A Depreciation Committee has been set up in the Department of Reconstruction to advise the Minister on the granting of certificates for special depreciation allowances on new capital expenditures on plant and equipment, as provided in the Dominion Budget of 1944, to assist the financial position of industry in the reconversion period. The policy is to certify applications as rapidly as adequate supplies of labour and materials become available for projects in the various localities, with a view to stimulating industrial conversion and expansion. The rates of depreciation to be granted are within the jurisdiction of the Minister of National Revenue.

Disposal of Surplus War Assets

Power to deal with surplus war assets is exercised by the Minister of Reconstruction through the Crown Assets Allocation Committee, the Director General of War Surplus, and War Assets Corporation.

The Crown Assets Allocation Committee, consisting of senior officers of the Dominion Government and representatives of labour, agriculture and the householders of Canada, recommends surplus disposal policy, and the general rule is to give priority to the requirements of a federal department or agency, a provincial government department, and a municipal body or public organization, in the order stated. In this way surpluses of equipment and other goods required by departments or agencies of provincial governments will be allocated to them on the basis of their high priority.

War Assets Corporation is the sole disposal agency for Crown-owned surplus. The assets may be disposed of in whole or in part, and some may be reserved or set aside. For example, a "multiple tenancy" scheme has been developed under which the government intends to utilize part of its property to make accommodation available for commercial enterprises, particularly in congested areas. The operating policy of War Assets Corporation has been outlined as follows:

1. To-day, when goods are scarce, to sell all saleable surpluses at existing market prices, but within ceilings set by the Wartime Prices and Trade Board.
2. Later, when the war ends, and surpluses become so great that they might constitute a danger to the transfer of industry from war to peacetime production and to the rapid employment of labour, to control the flow of such surpluses so that they will create the least possible disturbance to the normal economy of the nation.
3. At all times, to make every effort to control the price to the public, and to reach the public by the shortest possible route.
4. To keep out of unfair competition with established business.
5. To seek expert advice from industry on price levels and marketing methods, but not to act on such advice at the expense of public interest.
6. To distribute sales uniformly across Canada.

7. To sell abroad, in harmony with the other governments who are faced with the same problem, everything that becomes available abroad and that can be sold there.

8. To keep out the speculator.

9. To recover for the taxpayers of the nation and the original investors in these goods, the largest cash return upon their investments possible without interfering with the eight points previously mentioned.

The Director General of War Surplus is authorized to enter into negotiations with industry to dispose of Crown-owned plants and production equipment, and in such negotiations consideration is given to the following points:

Will the proposed use of the property and equipment

- (i) increase the possibility of employment?
- (ii) provide for the manufacture in Canada of a new product, previously imported?
- (iii) substantially improve working conditions, as compared to existing operations?
- (iv) provide facilities which will permit of more economic operations, as compared to existing operations?
- (v) provide desirable manufacturing facilities to meet anticipated increases in the domestic or export markets?
- (vi) provide a desirable redistribution of industry and employment?

In the disposal of government-owned plant, machine-tools, equipment, and other materials, the policy is to give special attention to the needs of small industries and to the desirability of establishing industries in smaller towns and cities and in areas in which there was little industrialization before the war. Since these are matters of vital concern to particular regions and localities, the co-operation of provincial governments in giving effect to these policies is highly desirable.

The Department of Reconstruction has established Regional Reconstruction Councils in each province, representative of the different economic interests therein. The cooperation of the provincial governments in the task of reconstruction can be effected through the establishment of close relationship with these Councils, as well as through the regular contacts between the Dominion and provincial governments. The Councils also afford machinery for cooperation with municipalities and other bodies.

With your permission I will ask Mr. Gardiner to deal with the section on Agriculture.

AGRICULTURE

Hon. J. G. GARDINER (Minister of Agriculture): Mr. Chairman, and members of the Conference, the Proposals of the Government of Canada in relation to Agriculture are as follows:

No industry has made a greater contribution to the Canadian war effort than agriculture. This achievement has left problems of conversion to peacetime conditions comparable to those of manufacturing industry. Many branches of agriculture were greatly expanded in response to war needs and overall production increased to levels far exceeding those of the past. This accomplishment drew heavily upon agricultural resources, resulting in heavy depreciation of machinery and equipment and great strain on the depleted farm population. The Dominion Government feels it has a responsibility to assist the industry in making the necessary readjustments to peacetime circumstances and to work in cooperation with the provincial governments to provide for a greater degree of stability in farm income and a greater measure of security than has prevailed in the past.

In its policies the Dominion Government will seek to prevent the violent fluctuations in the farm price level which have occurred from time to time in the past with unfortunate results. Family Allowance payments, the Dominion's share of Old Age Pension payments and the proposed Health Insurance plan have the effect of providing a measure of social security for the farmer as well as for the urban worker. With these may be coupled the Prairie Farm Assistance payments, designed to maintain farmers in widespread areas of crop damage. Over and above assistance of this type, the Dominion has several policies specifically directed to the maintenance of farm income. There is the provision of Export Credits, designed to encourage trade and maintain the flow of farm and other products into export markets. It is further expected that the domestic market for farm products will be stimulated through payment of Family Allowances, and through the increasing attention which is being paid to human nutrition by the Dominion Government and by other agencies, governmental and private. While the maintenance of farm income will rest ultimately on the policy of continued exports and high employment at home, Agricultural Prices Support legislation has been passed which provides for a revolving fund from which expenditures will be made for the maintenance of floor prices through direct purchase or guaranteed returns. Because of the current high level of employment in Canada and the two years' contracts for the sale of certain basic agricultural commodities to Great Britain, the immediate outlook in respect to farm prices is encouraging.

Expansion of Services

Directly to promote the productive efficiency of agriculture and to improve the opportunities and living standards of the farming population it is the plan of the Dominion to expand the existing developmental and protective services and to undertake desirable new services with the following general objectives in view:

- (1) to achieve the best and most efficient use of agricultural resources in relation to the potentialities of available markets at home and abroad;
- (2) to improve methods of agricultural production;
- (3) to raise the quality of agricultural products;
- (4) to protect agricultural resources against erosion and to control the ravages of insects and disease.

The accomplishment of these purposes will require an extended programme of research, conservation, and protective measures against plagues of all kinds. The agricultural services of the Dominion and provincial governments are, in varying degree, both engaged in these fields. The Dominion is anxious to work out the best possible basis of cooperation with the provincial governments in order to eliminate unnecessary duplication and to achieve a co-ordinated increase in activities where expansion is desirable.

Marketing

In the field of agricultural marketing, there are two matters that merit special consideration; one has to do with the regulation of the movement and sale, the other with the grading and inspection, of products. With respect to the first, it has been noted that some of the provincial governments have provided legislation under which various marketing plans and activities are developed. It would appear that this is evidence of an interest that should be considered at this conference insofar as Dominion-provincial relationships in the marketing field are concerned.

The second aspect of the matter, namely that relating to grading and inspection, is one that has concerned the Dominion and provincial governments for a great many years. By various means, the regulations with respect to

grading, inspection, packaging and labelling of products have been enforced to the advantage of producer and consumer alike. From time to time, however, the procedure followed has been interrupted by decisions of the courts which have indicated that either the Dominion or the provincial governments had exceeded their respective powers. It is apparent that the Dominion and the provincial governments are agreed as to the need for some action which will clarify the control and direction of activities in this field. Under these circumstances, it would appear that the Conference should give some consideration to this matter with a view to achieving the desired control.

Conservation Programme

The Dominion is prepared, on the basis of provincial co-operation and participation, to take a more active part in the development and conservation of agricultural resources. Through the work of the Experimental Farms Service and the Prairie Farm Rehabilitation organization, the Dominion has made outstanding contributions in this field.

It is proposed that the Dominion and provincial governments work out appropriate arrangements for the extension of agricultural conservation and development activities across the Dominion. This would include, in the first place, an extension of the economic surveys and soil surveys, which have already proved their usefulness, and the study of soil erosion from water comparable to that of erosion from drought and wind on the prairies. It would include projects for the conservation of water and for land drainage, and the inauguration of demonstrational work on such problems as soil erosion control and weed eradication. In addition, special projects such as dykeland rehabilitation and muckland development are contemplated as a part of this programme. Throughout this conservation and development programme, the fundamental principle of assisting farmers to solve their own problems should be observed, governments standing ready to provide such advisory services (agronomic, engineering, etc.) as are not available to the average farmer, and to aid in the organization of community efforts.

WAGE CONTROL AND COLLECTIVE BARGAINING

Wage Control

Hon. HUMPHREY MITCHELL (Minister of Labour): Mr. Chairman and Gentlemen, the next section deals with Wage Control and Collective Bargaining. The first section deals with wage control and is as follows:

WAGE CONTROL AND COLLECTIVE BARGAINING

Wage Control

The struggle against inflation will continue as a major transitional period problem. The vital interest of Labour in the success of this struggle becomes daily more obvious. The responsibility of the Government, too, is clear. It would be a gross breach of faith if, after labour loyally accepted the restrictions on wage increases when demand was high, and subscribed in unprecedented volume to successive victory loans, prices were allowed to skyrocket and no adequate effort was made to maintain employment. It is not less the case that during the transition period wage control must continue as an essential part of the general anti-inflation policy.

As soon as conditions warrant, and after consultation with those directly interested, further steps for relaxation of wage controls will be taken.

It is also anticipated that without endangering the general stability of wage rates, conditions will soon warrant the restoration to the provincial governments of the normal functioning of provincial minimum wage machinery under provincial minimum wage legislation.

Much has been said, at various times, about the desirability of uniformity throughout Canada of minimum wage standards, occupational coverage, maximum hours of work and minimum age of employment, consistent with justifiable local or regional variations in cost of living standards. The Dominion Government is most willing to discuss any proposals which might be made in these fields.

Collective Bargaining and Conciliation—Position Prior to the Wartime Labour Relations Regulations

The Industrial Disputes Investigation Act, 1907, was re-enacted in 1925 to bring it in line with the Privy Council decision in the Toronto Electric Commissioners' case. It was declared to apply to disputes in navigation or shipping, railways, steamships, canals, telegraphs and other works extending beyond the bounds of any province; to any works in the industries within its scope which are owned or carried on by aliens, owned by companies incorporated by the Dominion, or which are declared to be for the general advantage of Canada; to disputes declared by the Dominion Government to cause a national emergency; and finally to disputes which are within the jurisdiction of any province if by legislation of the province they are made subject to the Act. This definition was restricted in turn by limiting the application of the Act to mines, transport, communication, water works, gas and electric power industries.

The amended Act was thus drafted in the view that disputes in connection with such local works and undertakings as are excepted by the B.N.A. Act from the undertakings subject to the provincial power, are within the federal field, and in the view that because the Dominion Parliament has power over foreign corporations and companies incorporated under Dominion law, it has power over the labour disputes involving these corporations. This view is not free of legal doubt.

The application of the Act was extended under the War Measures Act to war industries.

In several provinces the Industrial Disputes Investigation Act was made applicable by provincial enabling legislation to industries ordinarily within provincial jurisdiction. Some of these provinces also had legislation of their own similar in nature to the Industrial Disputes Investigation Act.

Present Position

The I.D.I. Act is suspended while the Wartime Labour Relations Regulations, P.C. 1003, of February 17, 1944, are in force.

The Wartime Labour Relations Regulations apply to:

- (a) same undertakings as the I.D.I. Act applied to;
- (b) specified industries declared to be war industries;
- (c) industries within provincial jurisdiction which by provincial legislation are made subject to the regulations. All provinces except Quebec, Saskatchewan, Alberta and Prince Edward Island have passed enabling legislation applying Dominion regulations to industries within their own jurisdiction.

The Regulations include in particular:

- (i) collective bargaining provisions;
- (ii) provisions for the use of conciliation officers and conciliation tribunals as a means of assisting in negotiation of collective agreements;
- (iii) a definition and prohibition of unfair labour practices by employers and employees.

Position in the Transition Period

The wage control orders have taken wage rates and working conditions directly or indirectly affecting wage rates out of the field of collective bargaining during the last four years of the war.

In the relaxation of wage control in a step by step process, matters relating to wage rates and working conditions will in increasing degree be returned for settlement between employers and employees by collective bargaining. This will throw a heavier load on the conciliation services and collective bargaining administration of the Dominion and the provincial governments.

It is therefore important that in view of the necessity of having sufficient time in which to provide for enactment of suitable Dominion and provincial post-war legislation in substitution for the wartime regulations, the limited pre-war area of Dominion jurisdiction in this field, and the uncertainties as to the exact extent of such jurisdiction that the Dominion should retain its emergency powers over industrial disputes and conciliation into the transition period. The Dominion should be able to revise the existing wartime regulations in the interim, as necessary or advisable in the light of its experience gained and to meet changing conditions in this transition period. Undoubtedly as the result of wartime experience, both Dominion and provincial post-war legislation will differ considerably from the legislation in effect prior to February, 1944, when the Wartime Labour Relations Regulations came into effect.

Labour Management Production Committees

Independent of collective bargaining machinery but filling an important role in labour-management relations are Joint Labour Management Production Committees. Introduced in wartime to examine and consider means to improve and increase production, they have met with success sufficient to warrant their continued existence and further development in the years to come.

These Committees are composed of persons directly engaged in production in the plants or units they represent. Labour representatives are democratically chosen and their numbers at least equal those of management.

Labour Managements Production Committees are set up to examine carefully all recommendations of representatives of labour and management. The Committee's function is to advise and consult on problems of production. Grievances and problems relating to wages and working conditions must be left to the appropriate collective bargaining procedure. Labour should receive adequate explanations when their proposals are not accepted; they should co-operate in making effective recommendations which are adopted.

Joint Production Committees have come to be accepted as permanent democratic institutions in the United Kingdom and the United States. In Canada, the federal government intends to continue its active sponsorship of these Committees and invites the provincial governments to co-operate in such sponsorship.

Powers of Delegation

Legal doubt exists as to the authority of a provincial government to delegate any part of its jurisdiction to the Dominion, or vice versa.

The Sirois Commission suggested that provincial governments could not under the B.N.A. Act delegate jurisdiction to the Dominion over any category of industrial disputes within provincial jurisdiction.

It is not possible to forecast at this time the exact pattern that will be followed in post-war legislation covering industrial disputes. However, in event that some provincial governments will want to transfer jurisdiction over some types of industrial relations activities to the Dominion or to have Dominion

legislation apply thereto, it would appear highly desirable, in the national interest in the case of some types of industries that the transfer of such jurisdiction be made possible through an amendment to the B.N.A. Act.

It is suggested that an amendment of this nature would be non-controversial and, if framed in general terms, would have useful application to many other matters of joint Dominion-provincial character. The amendment could be framed to confirm in like manner the Dominion authority to delegate powers to a provincial government. The Conference might appropriately consider the necessity and advisability of this suggestion.

PUBLIC INVESTMENT POLICY

Introduction

Hon. C. D. Howe (*Minister of Reconstruction*): We next consider Dominion Proposals for Public Investment Policy.

PUBLIC INVESTMENT POLICY

Introduction

A large part of the foundation of an economy of high employment and welfare must be new investment. The Reference Book on Public Investment contains a substantial amount of material indicating the importance of investment in Canada in the past. In periods of expansion and high economic activity there has been a very large volume of new investment as well as maintenance and repair work, and in periods of stagnation and depression a negligible amount. During the war periods savings and investment have reached unprecedented peaks. To a very important extent it is by influencing the course of this dynamic force in the future that the Government plans to achieve its employment and welfare objectives.

The general approach has already been outlined. It may be briefly recapitulated as

- (1) by such methods of taxation reform and maintenance of income to encourage private investment, and
- (2) by preparing in advance to develop the nation's resources, add to its capital equipment, and raise its conditions of living to provide employment to the extent possible when private employment is slack.

It is equally important to note some of the limitations which apply to the Government's public investment policy. One is that public investment cannot in itself solve the post-war employment problem. It can only be a part of a broader and integrated programme. Another is that public investment must not be of a nature competing with and replacing private investment, or it will simply defeat its own ends. A third and very practical point is that the investment, if it is to be effective, must be in useful things and efficiently carried out. The extravagant expenditure of money on leaf-raking and wasteful construction, the haphazard choice of improvised projects, the absence of basic principles and design, and of competent economic analysis and engineering plans leads to disaster. Too much emphasis cannot be laid on the necessity of establishing our principles clearly and preparing our plans adequately in advance.

The Government, in its statement of policy in the White Paper on Employment and Income, undertook "to institute a system of managing its capital expenditures so that they may contribute to the maximum to the improvement and stabilization of employment and income." The steps it intends to take to regulate the timing of its own expenditures to this end, and the measures it

proposes to secure co-ordination of provincial and municipal timing of expenditures are developed subsequently. The guiding criterion here is to compensate for fluctuations in private investment and employment.

In addition to providing employment when desirable public investment has a major role to play in the conservation and development of mineral, forestry, agricultural and fishery resources, the improvement of transportation facilities, and the construction of public buildings and equipment required for general government services or particular government welfare programmes. Expenditures in these fields ought to be directed to the permanent expansion of the productive wealth of the country and to the widening of opportunities so as to create a dependable basis upon which individual initiative can be relied upon to provide rising levels of employment and income. In Canada, the possibilities are great.

Six years of war have drawn heavily upon our natural resources. The exploration and investigation of the economic potentialities of our resources are still in their early stages. Large capital expenditures are necessary to reap the economic benefits of new developments and methods in the field of transportation. Considerable outlays will have to be undertaken, purely as a matter of wise economy, to make up for the many normal projects and desirable maintenance expenditures that have been deferred in wartime. During the period of post-war reconstruction there is therefore a wide scope for sound and practical policies of public investment; policies which will create favourable conditions within which the resourcefulness, experience and initiative of the individual can contribute to the secure expansion of business and employment.

Dominion-Provincial Relations

The public investment programme as a whole consists of the activities and projects undertaken by all governments—Dominion, provincial and municipal. The development of an effective and coherent programme is dependent upon the achievement of an appropriate division of responsibilities, or workable methods of co-operation, between the Dominion and the provinces (including their municipalities). In the past the lines of demarcation were never satisfactorily defined; the division of activity in many fields has been based on improvised and expedient arrangements which have fallen short of what the general public interest would require. The expanded public investment programme necessary to accomplish the aims of the post-war period must be built upon a more logical basis of Dominion-provincial co-operation.

The Dominion has responsibility for developmental, conservation and other public works in the Yukon, Northwest Territories, Indian reserves, National Parks and other Dominion-owned lands. The administration and control of natural resources within provincial boundaries are, under the constitution, the responsibility of the provincial governments. However, regardless of this exclusive provincial responsibility the Dominion has in the past undertaken certain investigative, developmental and protective activities with respect to provincial resources.

The constitution does not specify the appropriate division of activities between the Dominion and the provincial governments in a wide field of work essential to the efficient conservation and utilization of natural resources. With respect to administration no question arises, but in connection with the group of activities which may be broadly defined as explorative, descriptive, and investigative, uncertainty exists as to the limits of the fields which each government should occupy. The division of work existing at present has developed gradually on the basis of tacit consent.

In practice, some projects, such as the Hydrographic and Geodetic surveys and the Dominion Observatories, have been recognized as exclusively Dominion functions but the number of such examples is small. In many other fields both

the provincial and the Dominion governments are concurrently carrying on similar activities; for example, although the preparation of the geological map of Canada is recognized as a proper function of the Dominion, a considerable amount of geological work is performed by the different provincial governments, such work varying in kind and intensity from province to province. The situation is still further complicated, in this instance, by the existence of statutory obligations placing responsibility on the Dominion for geological surveys in three provinces while no corresponding obligation exists with respect to the other six. Similarly, the amount and kind of topographical mapping performed by provincial authorities varies greatly from province to province.

The basic reason for any provincial government undertaking work in a field where the Dominion was already operating has been the pressing need for obtaining information more quickly than the Dominion could provide it. Nevertheless, the procedure followed inevitably means that the provincial governments may perform work in certain areas of a kind which is likely to be repeated when those areas are reached in the progress of the Dominion programme.

Ever since Confederation certain activities necessary to the development of natural resources have been administered and financed entirely by the Dominion. In more recent years some work has been carried on in the form of projects jointly financed and administered by the Dominion and a provincial government or several provincial governments. In addition, the Dominion has sometimes extended financial assistance to projects which have been undertaken by provincial governments, some such projects being of an investigative nature while others were concerned primarily with administrative functions. No clearly defined principles governing the assumption by the Dominion of direct responsibilities or Dominion assistance to provincial undertakings have thus far been enunciated and, in consequence, a good many *ad hoc* and expedient decisions have been necessary.

There are phases of natural resource development and conservation which can be carried out effectively only on a national scale by the Dominion Government. Also there are important aspects of development and conservation which are of large concern to the general national welfare, or have interprovincial effects, which only the Dominion can assume. In view of these circumstances on the one hand, the constitutional responsibility of the provincial governments on the other, there is a great need for a clearer definition and understanding of the functions proper to the Dominion and provincial governments.

The Dominion's proposals for an expanded programme of conservation and development of agricultural resources have already been outlined. The British North America Act provides for concurrent Dominion-provincial jurisdiction in agriculture. Both the Dominion and the provincial governments have in the past undertaken a wide range of activities for the protection and improvement of agricultural resources. The great scope for extended activity in the future will provide ample room for useful work by all governments. The limited possibilities for further large scale settlement of new lands, the pressure of the wartime demands upon soil fertility, the growing problems of soil erosion, and the ever present menace of plague and disease call for a more intensive and carefully planned approach. Here, as in the case of other natural resources, a clearer definition and understanding of the functions appropriate to the Dominion and the provincial governments is needed to avoid inefficiency and duplication. This, together with the establishment of workable principles of co-operation on a wider plane, are essential to the attainment of a coherent programme of expanded activity.

In the field of transportation the Dominion has in the past generally assumed full responsibility for national transportation facilities (inter-provincial railways, canals, national harbours, navigable rivers) specifically assigned to it by the

constitution. The more recent forms of transportation, namely motor highways and air transport facilities, have some time ago developed to the stage where in certain respects they raise matters of broad national concern. Here the nature and extent of Dominion activity and assistance has grown up piece-meal and has varied from time to time and place to place. In the reconstruction programme it is desirable that the Dominion's role regarding matters of national interest in national highways and airports be clarified, and that a definite and practicable basis of Dominion-provincial co-operation be established.

The possibilities of co-ordinating Dominion, provincial and municipal expenditures and interests in the whole field of rail, road, air and water transportation is a problem which is not only large in magnitude but extraordinarily complex, and will require the most thorough consideration. The best form this consideration might take would appear to be an appropriate subject for study by one of the continuing committees of this Conference.

Dominion Proposals for Co-ordinating Dominion and Provincial Activities

The Government has considered these questions of Dominion-provincial relations in the field of public investment and has drawn up general principles, which it suggests as appropriate to govern the division of responsibilities and the co-ordination of activities, in an expanded post-war program. It is proposed that the lines of division should, as far as possible, be drawn so that there is a minimum of interference with the administrative functions and constitutional powers of the respective governments. In cases where Dominion assistance to provincial governments or joint arrangements are desirable, it is proposed that the participation of the respective governments should take the form, wherever feasible, of full financial and administrative responsibility for specified phases or parts of joint undertakings, worked out by agreement. This procedure should avoid many of the administrative difficulties, wastes, and frictions that sometimes arise under the usual grant-in-aid schemes.

The application of these principles is discussed under the following headings:

- (a) activities for which the Dominion is fully responsible or is prepared to consider assuming full responsibility by suitable arrangements with the provincial governments wherever necessary;
- (b) activities for which the provincial governments are responsible and which the Dominion is prepared to consider assisting provided specific agreements can be reached.

(a) Activities for which the Dominion is fully responsible or is prepared to consider assuming full responsibility by suitable arrangements with the provincial governments wherever necessary.

1. Legal obligations under the constitution; works required to fulfill international obligations and international agreements; all development, conservation and public works projects in the Yukon, Northwest Territories, Indian Reserves, and other Dominion-owned lands.

2. Basic surveys, mapping, inventories, topographical and descriptive work on a national scale essential for the conservation, development, and management of natural resources; (The Dominion would provide to designated levels of intensity basic information for all parts of Canada. The provincial governments, using the Dominion's information as a foundation or starting point, could concentrate their available facilities on securing more detailed data when, where and how their administrative problems and interests might direct.)

- (i) surveys to designated levels of intensity, including geological, geodetic, topographical, hydrographic, ground water, soil classification, soil erosion, land drainage and flooding, water conservation, vegetation, biological (fish) and forest insect surveys;

- (ii) mapping, charting and air photography to designated levels of intensity, including charting of inland and coastal waters and general geographical service;
- (iii) national inventories to designated levels of intensity including national forest inventory and compilation of national mineral reserves.
- (iv) general exploration.

3. General and basic research on resource development, conservation and protection problems and methods; research requiring large diversified staff and highly specialized technical personnel; research on a national scale to avoid duplication of individual provincial efforts on similar problems; general research on methods of protection of resources against plague and disease; general research on the economic utilization and extraction of resources;

- (i) agriculture, including research on soils, agricultural engineering, fruit and vegetable processing, animal health, plant life protection and forest insects;
- (ii) mineral and forest resources, including research on ore dressing, metallurgy, fuels, special problems of mineral extraction and silviculture and utilization of forest products;
- (iii) Fisheries, including research on fish biology, utilization of fish products and transportation and distribution of fish;
- (iv) construction, including research on building methods, building materials, road materials and public building design.

4. Development and conservation of resources which are inter-provincial in nature or have important inter-provincial or regional effects;

- (i) protection of regional watersheds; e.g., East slope of Rocky Mountains;
- (ii) integrated development of inter-provincial river valley systems;
- (iii) protection of migratory wild life;
- (iv) agriculture; e.g., control of plant diseases.

5. Demonstration projects on special problems of development, conservation and protection of resources;

- (i) agriculture; e.g., soil erosion control and weed control;
- (ii) forestry; e.g., projects in forest management;
- (iii) fisheries; e.g., processing and distribution.

6. Provision of national transportation and communication facilities.

In the field of transportation and communication the Dominion will continue to carry out its established responsibility in respect of inter-provincial railways, canals and dredging, national harbours, docks and wharves and the development of navigable and international streams.

In addition the Dominion Government is prepared to assume responsibility for the programme of airports and related air navigation facilities required to provide all the airports and facilities necessary for international services and main line services within Canada.

7. General and basic census surveys in fields touching on resource development and public investment to provide comparable information for all parts of Canada;

- (i) facilities and conditions in the primary industries;
- (ii) supply and condition of housing, community planning information, regional planning information.

(b) Activities for which the provincial governments are responsible and which the Dominion is prepared to consider assisting provided specific agreements can be reached.

1. Assistance to raise provincial standards in the general national interest in respect to the conservation, protection and development of provincial natural resources;

- (i) agriculture—extension of conservation activities to all provinces e.g., water conservation, land drainage, marsh land rehabilitation, land clearing, soil erosion control;
- (ii) protection and management of forests, including fire protection in remote areas, protection against insects and disease, and silvicultural practices; and fur conservation. Particularly the Dominion is prepared to take an immediate and active part in organizing effective joint control measures against forest insect depredations.

2. Assistance to provide new access roads to undeveloped mining and forest resources.

3. Assistance for the construction of transportation facilities of national importance;

- (i) trans-Canada highway, international connections, approaches to national parks;
- (ii) railway grade crossings;
- (iii) airports related to natural resource development.

4. Assistance to promote particular national programmes;

- (i) facilities for technical education and specialized training;
- (ii) assistance to promote rapid increase in hospital facilities required for inauguration of health insurance, as outlined in the section on the National Health programme.

The promotion of the tourist industry has been kept in mind in the formulation of all the proposals. While primarily a matter of provincial responsibility, the federal government will continue and expand its measures to encourage this important industry.

In the fishing industry there is need for improving the catching, processing and distributing equipment. The Dominion is considering methods by which credit can be provided for these purposes.

Timing of Public Investment

Public investment provides useful assets which add to the future productivity and employment possibilities of the economy. Execution of the projects at appropriate times may also play an important role in the general programme designed to stabilize employment and income at a high level.

The degree to which public investment expenditure can be accelerated or postponed varies depending on the urgency of the need for the facility to be provided, and on the physical nature of the project. Hence, one part of the investment programme will include all those undertakings on which work cannot be postponed, either on account of social or other current need or because they lay the groundwork for an expanded investment expenditure when, for employment purposes, the need arises. The second part will comprise projects of genuine value, on which expenditure will be available, expanding in time of low employment and declining when employment is high. There should be a large volume of truly useful postponable public investment projects of all governments available to fit into the second category to provide employment when needed.

In its own investment policy it is proposed that the Dominion adopt practices which are consistent with and which supplement its total employment programme. Unemployment in Canada in the past has been associated with an abnormally low volume of exports, of which the effects are felt in

the whole economy, and with a low volume of private domestic investment. It is proposed that investment policy be used to mitigate or offset deficiencies in export income or private investment expenditure according to the principles of

- (a) using public investment programmes to strike as near the source of deficiency as possible; and
- (b) providing expenditures through established channels in which the deficiencies of income and investment are most severely felt.

The great export industries are agriculture, forestry, mining and, to a lesser degree, fishing. An accelerated resources development programme would provide alternative income to these great export groups if exports are low. Non-urban road development programmes will have the same effect as far as agriculture, forestry and mining are concerned, although it is not apt to help the fisheries industry directly to any great extent. Increased income of the primary export groups would greatly help the remainder of the economy by maintaining both consumption and investment outlay.

A decline in private investment expenditure releases workers of various skills from employment and lowers the amounts of producer materials used. The resources development programme would help provide employment directly and indirectly to many of these people. In addition public expenditure on buildings, docks, wharves and piers would provide direct use of labour and materials of the type not absorbed by private investment expenditure.

To follow the programme proposed, the Dominion is making provision that:

- (i) All basic survey and research work on which an expanded resources programme depends be gone ahead with as rapidly as possible;
- (ii) advanced planning of projects be carried out on a sufficiently large scale to have an adequate reserve at all times for the timing purposes of the Dominion public investment programme;
- (iii) appropriate arrangements be made to make available sufficient technical and other staff to carry out the survey and planning work;
- (iv) arrangements among departments be completed in advance, site acquisition be provided for (perhaps by taking options), and other preliminary negotiations involving property rights and agreements with other governments or with private agencies be completed;
- (v) necessary authority be given to carry out the above arrangements at an early date and appropriations for execution of projects be made beforehand in order that contract letting may be proceeded with promptly, when necessary.

In the inter-war years, particularly in the 1930's, public investment expenditures of provincial and municipal governments were much larger than those of the Dominion government. It is highly desirable that other governments agree to accept similar timing policies to those that the Dominion proposes for its own programme. The Dominion proposes to give positive encouragement to provincial and municipal governments to follow these practices. Encouragement to prior planning will be afforded by

- (a) lending technical assistance,
- (b) providing factual information resulting from Dominion survey and research work,
- (c) Dominion grants covering part of the cost of planning approved projects.

It would be necessary to set up machinery for assessing projects and standards for selecting them to qualify for the planning grant proposed. These arrangements would include

- (a) a maximum limit of planning grants for each province,

- (b) definition of projects to exclude maintenance and minor work and non-postponeable projects.
- (c) requirement of provincial recommendation of municipal projects submitted for a planning grant,
- (d) a planning grant equal to x per cent of the planning and engineering cost, one half or other portion of which would be paid when the cost was incurred and if the project were registered for the timing assistance noted below, and the remaining part when and if the project was executed in a period approved by the Dominion.

To exercise effective influence on the timing of provincial and municipal public investment expenditure in the interest of employment without injecting Dominion interference into fields which are the exclusive concern of provincial and municipal governments will require new Dominion-provincial arrangements. The Dominion proposes to adopt a policy of attaching control of timing wherever it is paying grants for public projects (e.g. mining, roads or technical schools) if the project can be reasonably postponed. The Dominion further proposes to pay a specific grant of 20 per cent of the cost of provincial and municipal public investment projects if

- (a) they have been accepted and registered by the Dominion authority as fully planned projects prior to the time of execution;
- (b) they are executed in a period designated by the Dominion authority.

In accepting projects for registration, the Dominion authority would ascertain that the project was fully planned and ready for execution. All projects for which planning grants had been given would be accepted. Certain projects would be rejected on the ground that

- (a) they were maintenance, repair, local improvement or other non-postponeable projects representing current work not genuinely submitted for timing; or
- (b) they were public utility projects, or of a commercial nature competing with private industry.

In the timing of projects the Dominion would concern itself only with employment considerations, leaving to the provincial and municipal governments the direction of their own investments, subject to the Dominion having discretion to determine in any one year the total value of projects, if any, on which it would pay timing grants within any province. It would also of course authorize the grant for projects whose execution would extend over several years.

* * *

The Government appreciates that the proposals briefly outlined above cover a large and complex field. Only by the closest co-operation at all levels of Dominion and provincial governments can the great possibilities inherent in our resources be realized and a fully rounded public investment programme be developed. It is the Government's view that the greatest effort should be made to achieve this co-ordination, and its proposals have been set forth to that end, to maximise the returns from these resources, stimulate private enterprise and improve the welfare of the people directly dependent on them.

Hon. BROOKE CLAXTON (Minister of National Health and Welfare): Mr. Chairman and gentlemen, I shall deal with social security:

SOCIAL SECURITY

Introduction

Security in War and Peace

The quest for security is not a new thing. We have sought it in the sense of personal security, through the efforts that each one of us makes towards a satisfactory adjustment of his own personal and environmental relationships. We have striven to achieve it in the form of economic security, or a decent livelihood for ourselves and our families. We have striven towards the twin goals of national and international security through bitter wars and intervals of peace.

It is this quest for national and international security that has involved us in the struggle of the past six years. Because of this, it is not so paradoxical as it seems that during war, when physical security is at its lowest, we should show a greater interest than ever before in social security plans for post-war Canada. Certainly, the interest of Canadians is greater than ever before in health and welfare and the weight of public opinion is reflected in the policies and programmes of all governments, provincial and federal alike. In the federal field, this interest in broader social security measures has resulted in the passage in wartime of the Unemployment Insurance Act, the Family Allowances Act, and in the act to create a Department of National Health and Welfare.

Social and Economic Reasons for Social Security

The problem of social security has two aspects. They are first, humanitarian or social, and second, economic or financial. Traditionally we have been prone to regard these aspects as conflicting. Recently, however, we have come to realize that broad social security legislation justifies itself, not only in humanitarian terms but in the contribution it can make to economic stability through the maintenance of production, income and employment, and the equitable distribution of purchasing power.

Our people have been told on many occasions during the past six years that Canada, in company with other members of the United Nations, has fought this war not merely as a defensive war against aggression, nor merely to defend our way of life on the level that it existed before the war. They have been spurred on to maximum efforts by the thought that out of this struggle will come protection to all the cherished freedoms won through centuries of struggle, and even more, that through it will come a better way of life, a better chance at full and healthful living for common men and women everywhere. This was the promise given by the nations who pledged themselves to the ideals and the objectives of the Atlantic Charter.

Achieving Our Goal by Stages

Already, in the legislation mentioned, the Government has laid important foundation stones of social and economic security. The proposals which we desire to advance for the consideration of this Conference are designed, when fitted into place in the whole Dominion-provincial scheme of things, to fill the three main gaps in our present system. Health Insurance, National Old Age Pensions and Unemployment Assistance, combined with the health and welfare measures already adopted by the federal and provincial governments, will give Canadians a system of social welfare which will meet the main needs of our whole population.

The Economic Argument for Social Security

Reference has been made to the effect of large-scale social security measures on the economy of the country as a whole. This need not and should not be the prime consideration in adopting health and welfare legislation. But since this aspect of the problem has not received the attention that it merits, perhaps a further reference to it would be in order.

During the war we have succeeded in establishing new high levels of employment. Our national income has risen to record heights. Income and purchasing power have been more evenly distributed than ever before. This has resulted in an unprecedented increase in consumer demand.

During the war years we have been obliged to keep this consumer purchasing power under control as far as possible. But as scarcities disappear and wartime demand falls away, it becomes essential to encourage a freer use of consumer purchasing power in order to take up the slack that will otherwise develop. It is in this connection—namely, the maintenance of a high degree of consumer purchasing power—that large-scale social security measures can and do play an important role.

A significant volume of social security payments, flowing into the consumer spending stream, will stabilize the economy of the country as a whole and work against a fall in the national income. Social security payments therefore become, in these circumstances, a powerful weapon with which to ward off general economic depression.

Social Security—Its Contribution to Canadian Unity

A nationally based and nation wide social security programme can strengthen true Canadian unity. It is the practical expression of our common interest in protecting the individual against economic hazards beyond his control.

The Government believes that the social security proposals which it is setting before this Conference would make a threefold contribution. They would provide a network of protection for the Canadian people that justifies itself on social and humanitarian grounds. They would provide an important degree of protection to buttress the nation's economy as a whole in times of stress and strain. Less tangible perhaps, but in some ways most important of all, they would make a vital contribution to the development of our concept of Canadian citizenship and to the forging of lasting bonds of Canadian unity.

THE NATIONAL HEALTH PROGRAMME

Scope for Improvement in Health and Health Services

Although great progress has been made in Canada during the first half of this century, there still remains a tremendous job to be done in improving the national health and in extending the benefits of modern science and medical care to all parts of the nation and all sections of the population.

Certain specific diseases have been almost conquered; diphtheria and typhoid no longer exist in those communities which have adequate public health measures. Deaths from tuberculosis in Canada as a whole have fallen from 200 per hundred thousand population at the beginning of the century to 48 in 1944, the lowest in all time. In the past 25 years, infant mortality and maternal mortality have been cut in half, but the rates are still too high. With adequate planning and action throughout the entire country it would be possible to make much more progress than what has already been achieved.

There are great inequalities in the quantity and quality of health care available to different groups of Canadians, and in the costs of such public and private

health services and medical and hospital facilities as are now available. These inequalities in part deflect differences in personal incomes, and in part are due to differences between rural and urban areas. Great differences between provinces arise from these same factors.

About 45 per cent of the people of Canada live in rural areas, and on the whole they have much less adequate health services and medical care than are available in large centres of population with modern hospitals and laboratories and where scientists and doctors and specialists of all kinds tend to congregate.

It is becoming evident that the basic condition for good health in a community is the wise use of sufficient money, and that this requires a degree of organization and long-term planning in the twin fields of preventive and curative medicine greater than anything yet attempted in this country.

Under our present system, for the man who can afford to pay, the cost of ill-health falls at the very moment when his earning capacity is cut off. The cost of treatment and cure for the individual who cannot afford to pay is borne to a considerable degree through the benefactions of well-to-do members of the community and the generosity of doctors who give so freely of their time and skill, and more and more by the provincial governments and municipalities. In spite of these efforts desirable treatment is still not obtained in many cases. While much of the cost of illness is thus hidden, it can only come out of the total productive capacity of the country. The advantages of a broader provision of health services on a more equitable basis are obvious.

Health Services in Canada

In Canada health services fall clearly within the jurisdiction of the provinces, which share their administrative and financial responsibilities in this connection with the municipalities. Figures given in the Reference Book on Health, Welfare and Labour indicate a total expenditure by provinces and municipalities combined on health services in 1943 amounting to approximately \$41,500,000. Dominion expenditures on health for the same year through the Department of Pensions and National Health amounted to slightly more than \$1,500,000. Individual expenditures on health have been estimated at \$250,000,000 a year. There is a very great variety in the services covered by these expenditures and in the organization of provincial and local programmes through which these services are given.

To illustrate differences in organization, it may be mentioned that Divisions of Dental Hygiene are maintained by four provinces; Divisions of Nutrition by three provinces; three provinces maintain Divisions of Industrial Health; Divisions of Tuberculosis control are found in all but three provinces; only one province maintains a nurses' registry; Divisions of Public Health Nursing are part of every provincial organization except one; health units are part of the organization in five provinces; Divisions of Public Health Education appear in the organization of every province except two; only one province maintains a Division of Entomology. Some of the provinces give free services in mental hospitals, for tuberculosis or for cancer. In some provinces there are full-time salaried municipal doctors, and in other cases partially subsidized doctors who give general practitioner service in sparsely settled areas.

Potential patients per doctor vary from 1973 in New Brunswick and 1878 in Saskatchewan to 1096 in Ontario. Within the provinces there are very disproportionate distributions of doctors. Some of the cities are adequately or relatively over-supplied with doctors, whereas many rural areas are very badly off.

There are also wide variations in the quality of services across Canada—widely varying patient-day costs, patient-doctor ratios and salary ranges in hospitals. There are just as great variations in the incidence of tuberculosis, venereal disease and other communicable diseases.

To remove the disparities in standards of health services in different parts of Canada, to avoid the risks of sudden heavy expenditures, and distribute health costs more widely and equitably, and above all, to obtain the benefits of better health for the great majority of our people—these are the objects of the proposals which the federal government is now making with respect to health insurance for all, and increased public health services assisted by federal grants.

Health Insurance

Nearly all countries have adopted health insurance in one form or another. The chief exceptions to date have been Canada, Australia and the United States, which are all federal countries where jurisdiction over health is a matter of local concern and belongs to the states and provinces rather than to the national government. Australia passed a National Health and Pensions Insurance Act in 1938, which has not come into operation. A major Social Security Bill to provide health insurance amongst other measures is now before the United States Congress. The history of the movement towards health insurance in Canada is outlined below.

Health insurance has been widely adopted because it is regarded as the best means of meeting and of distributing fairly the costs of illness and, in conjunction with preventive services, of improving the general health of the nation. Specifically:

- (1) Health insurance enables the cost of illness to be prepaid, so that by paying regular sums when they are well people are able to meet the costs of illness when they are ill without being financially crippled.
- (2) Health insurance not only enables individuals to prepay their medical costs, but does this in such a way as to secure a wide pooling of risks and distribution of costs in much the same manner as any other form of insurance.
- (3) The provision of funds by all persons within a large area makes it possible for hospital and medical services to people in that area to be planned and administered more efficiently and economically than could be done by any other method.
- (4) The provision of better facilities for treatment and advice also operates to reduce the total incidence of disease and preventable death. Health insurance must be accompanied by adequate public health measures of a preventive character, but health insurance itself also provides important preventive benefits.
- (5) Health insurance permits the steady extension of health services into areas not previously covered, and the rapid application everywhere of new methods and services as they are discovered and developed.

Health Insurance in Canada

In both federal and provincial circles, health insurance has been under active consideration since the last war. In 1941, the Minister of Pensions and National Health called a meeting of the Dominion Council of Health and other interested agencies to study the question. In 1942, the government appointed an Advisory Committee on Health Insurance. In 1943, the House of Commons appointed a Committee on Social Security. To this committee, the Advisory Committee on Health Insurance made a report on the 16th of March, 1943. Widespread discussion occurred on the part of interested organizations and individuals. The Canadian Public Health Association in June, 1942, the General Council of the Canadian Medical Association in January, 1943, and numerous farm, labour and other organizations passed resolutions approving in principle of health insurance.

Included in the report of the Advisory Committee was a draft bill providing for health insurance on a nation-wide basis. This was to be administered by a commission to be established under provincial legislation to be enacted by each province. The estimated cost of health insurance to be provided by this means was \$256 million on the basis of the population in 1941. The federal government was to meet three-fifths of this cost by a grant in aid to the provinces. The provinces would meet two-fifths of the cost by a tax of \$12 imposed upon each adult in the population. The per capita cost was estimated at \$21.60 per every man, woman and child in the country, which would cover a complete medical and dental service, including specialist services and hospitalization.

In May, 1944, a conference was held at Ottawa which was attended by representatives of all the provinces. The discussion principally turned on the estimated cost of the services contemplated under the draft Health Insurance bill and on the manner of meeting this cost. Views were put forward by several provinces which appear to have the support of most if not all of the provinces. These indicated their strong desire that health insurance should be proceeded with by stages and that any scheme adopted should be flexible enough to permit the provinces to build on the varying services in each province.

Since the meeting in 1944, health insurance has been further considered by the federal government in the light of the views expressed by the provinces.

In the Speeches from the Throne which began the session in January 1944 and which closed the session in January 1945, the federal government declared again its desire to bring in a nation-wide system of health insurance as soon as suitable arrangements could be made with the provinces. It was stated that this would be one of the subjects to be brought up at the Dominion-Provincial Conference to be held as soon as possible following the general election.

Desirable Features of a Plan of Health Insurance for Canada

In considering the proposal it would make in connection with health insurance, the federal government had in mind, not only the experience in other countries but the views of the provincial governments to which reference has been made here. It was felt that the proposals of the federal government should be based on the following principles:

(1) Any plan should have the ultimate aim of providing the highest quality of health care for all Canadians in all parts of Canada.

(2) While the scheme should be nationwide in scope, it should also be adaptable to meet the particular local conditions of the various provinces, and therefore should be under provincial administration.

(3) The plan should be flexible enough so that each province, in adapting it to local circumstances, may make use of provincial health services and facilities already in existence.

(4) The plan should be capable of being introduced in any province by several stages if that province so desires, in recognition of the fact that staff, equipment, and administrative experience may be lacking for carrying out an over-all scheme immediately.

(5) The plan should also be capable of coming into effect in separate areas if, in the opinion of the provincial authorities, such an approach is desirable in any particular province, but a time limit must be set for complete coverage of the whole province.

(6) While the national plan must outline the services which are to be provided, the provinces should be able to determine the particular methods by which these services will be made available, including any necessary arrangements with physicians, hospitals, nurses, specialists, manufacturers, druggists,

and suppliers of equipment, all of which may be left to the decision of the various provincial administrations in accordance with their view of what is best in their province.

(7) As far as possible, the existing personal relationship between doctor and patient should be maintained.

Proposals of the Federal Government

The specific proposals which the federal government wishes to put forward at this time for consideration by the Conference include:

- (a) Grant for Planning and Organization;
- (b) Health Insurance;
- (c) Health Grants;
- (d) Financial Assistance in the Construction of Hospitals.

It is believed that none of these proposals involves in itself any change in the constitutional jurisdiction or responsibility of federal or provincial governments under the British North America Act.

(a) Planning and Organization Grant

As a preliminary step towards the establishment of health insurance, the federal government proposes to make available to the provincial governments grants for planning and organization so that each provincial government may as soon as possible establish a full-time planning staff to prepare for and organize health insurance benefits within the province, and make provision for the training of necessary personnel. This grant will be available as part of an agreement under which the provincial governments undertake to complete the preliminary preparations within 18 months, and, before the expiration of that time, to submit provincial health insurance programmes to the federal government. The amount of the grant offered comes to a total of \$620,000, divided among the provinces on the basis of \$5,000 each, plus five cents per person according to the distribution of population at the time of the 1941 Census. The apportionment of this grant by provinces is shown in the table on page 94.

(b) Health Insurance Proposal

The federal government's health insurance proposal is designed to put provincial governments in a financial position to develop and administer a comprehensive health insurance programme worked out by progressive stages on an agreed basis. To this end the various health benefits which the federal government would be prepared to assist in providing have been classified (see table below) and a procedure suggested for a wide degree of flexibility in each province in introducing them.

The proposed federal government's contributions to the cost of each benefit under the health insurance plan as it is brought into effect in each province or in any area within a province is

- (i) a basic grant of one-fifth of the *estimated* cost of each service as shown on the table which follows (as from time to time revised by agreement), and
- (ii) one-half the additional *actual* cost incurred by each provincial government of providing each benefit, provided that the total federal contribution does not exceed the amount stated in the table for each service, or a maximum of \$12.96 per person, when the complete programme is in operation.

The table below shows the basis of the federal government's contribution to the provincial governments for health insurance in respect of each of the suggested benefits.

In order to get the plan started, for the next three years the cost of each benefit will be taken to be the amounts shown in the table. These figures will be replaced after each three years by the actual average cost of giving each benefit.

The provinces may introduce the benefits by stages and may establish any benefit for the whole or any part of the province. For example, a province may secure assistance in providing nursing assistance in rural areas of part of the province. The federal government would then contribute as above to the cost of this service, for all the people in the area served. This arrangement would allow each province to institute the benefits for which it feels the most pressing need and to develop complete health insurance services through those stages which appear to be most expedient for the province concerned.

In order to ensure early provision of basic services, a provincial government entering the plan would agree to furnish general practitioner services, hospital care and visiting nursing services within two years of its entering upon the plan.

The table of benefits with the figures at which the cost of each will be set until replaced after three years by the average actual cost of each service follows:

BASIS OF FEDERAL CONTRIBUTIONS FOR HEALTH INSURANCE
(Dollars per capita)

Service Provided	Estimated Average Cost of Service ¹	% of Total Cost	Basic Dominion Grant (20% of total est.)	Maximum Additional Dominion Grant (50% of additional actual cost to maximum)
	\$	%	\$	\$
<i>First Stage</i>				
General practitioner service.....	6.00	28	1.20	2.40
Hospital care.....	3.60	17	0.72	1.44
Visiting nursing service.....	0.60	3	0.12	0.24
Total First Stage.....	10.20	48	2.04	4.08
<i>Later Stages</i>				
Other medical services (consultant, specialist and surgical).....	3.50	16	0.70	1.40
Other nursing services (including private duty)...	1.15	5	0.23	0.46
Dental care.....	3.60	16	0.72	1.44
Pharmaceutical (drugs, serums and surgical ap- pliances).....	2.55	12	0.51	1.02
Laboratory services (blood tests, X-rays, etc.)...	0.60	3	0.12	0.24
	21.60	100	4.32	8.64

¹Estimated cost to be revised on basis of actual costs after three years.

The per capita cost of the general practitioner services, hospital care and visiting nursing services, grouped together as the First Stage, will be approximately \$10.20 for the country as a whole on the basis of the cost shown in the table. For this, the federal government would provide a basic grant of one-fifth, or \$2.04 per capita. In addition it would share equally all additional actual costs up to the estimated total cost. The federal contribution in respect to these three services would consequently be made up of the basic grant of \$2.04 plus an additional amount up to \$4.08 per capita, or a total of \$6.12. Again, on the figures shown in the table and on the assumption that the benefits provided in

the First Stage were extended to all of Canada, the cost to the federal government for the First Stage would be \$70 million and about \$45 million for the provincial governments.

A province's participation in the plan would begin

- (1) Upon a province making use of the proposed Planning and Organization Grant within eighteen months and presenting a plan, satisfactory to the Governor-in-Council, describing the existing services and benefits in the province and the stages by which benefits will be provided and the full health insurance plan put into effect;
- (2) Upon a province within the same period of eighteen months making an agreement with the federal government to provide the initial benefits for the First Stage of general practitioner services, hospital care and visiting nursing services within two years of the signing of the agreement. The agreement should further provide for the carrying into effect of the total health insurance programme over a term of years, for a registration fee to be paid by or on behalf of every person, who has attained his sixteenth birthday and whose normal place of residence is in the province or area where benefits are provided, for a registration, accounting and reporting system, for the cost of administration within the province to be paid out of money provided by the provincial government, and such other provisions and conditions as may be agreed to between the provincial government and the federal government.

A complete health insurance service for all the people of Canada must obviously take a number of years to introduce. The cost to the federal and provincial governments would depend on the health benefits provided at any given time. For the full health insurance programme when finally realized the total cost, for the population shown in the 1941 Census and for benefits as shown in the table above, would be \$250 million per annum. On this basis the federal government's share would be \$150 million and the provincial government's share \$100 million.

On the same assumption the payments by the federal government for the various stages are shown on the following table:

COST TO THE FEDERAL GOVERNMENT OF INITIAL BENEFITS UNDER HEALTH INSURANCE

FIRST STAGE

(In thousands of dollars)

Province	General practitioner service	Hospital care	Visiting nursing service	Total
Prince Edward Island.....	342	206	34	582
Nova Scotia.....	2,081	1,248	208	3,537
New Brunswick.....	1,646	988	165	2,799
Quebec.....	11,995	7,197	1,199	20,391
Ontario.....	13,636	8,181	1,363	23,180
Manitoba.....	2,627	1,576	263	4,466
Saskatchewan.....	3,256	1,935	323	5,514
Alberta.....	2,866	1,720	287	4,873
British Columbia.....	2,944	1,767	294	5,005
Total cost to federal government.....	41,393	24,818	4,136	70,347

COST TO THE FEDERAL GOVERNMENT OF OTHER BENEFITS UNDER HEALTH INSURANCE

LATER STAGES

(In thousands of dollars)

Province	Other medical service	Other nursing service	Dental care	Pharmacists	Laboratory service	Total
Prince Edward Island.....	200	66	205	145	34	650
Nova Scotia.....	1,214	399	1,249	884	208	3,954
New Brunswick.....	960	316	988	700	165	3,129
Quebec.....	6,997	2,299	7,197	5,098	1,199	22,790
Ontario.....	7,954	2,614	8,181	5,795	1,363	25,907
Manitoba.....	1,532	503	1,576	1,117	263	4,991
Saskatchewan.....	1,882	618	1,935	1,371	323	6,129
Alberta.....	1,672	549	1,720	1,218	287	5,446
British Columbia.....	1,718	564	1,767	1,251	294	5,594
Total cost to federal government.....	24,129	7,928	24,818	17,579	4,136	78,590

These proposals are being made by the federal government as the most realistic method by which to realize, as soon as possible, the ultimate goal of a complete system of health insurance on a nationwide basis. The provision of separate stages and the various alternatives left open to the provincial governments have been adopted in order to make the scheme more flexible and practicable, and not with any idea of limiting the total scope. It is hoped that in this way the needs and circumstances of all the provinces can be adequately met, and the greatest possible degree of progress achieved.

(c) Health Grants

Previous references have indicated the wide variations in the provision of public health measures in the provinces. The object of public health grants is to ensure a more nearly standard quality and quantity of public health services throughout Canada at a higher level.

Vital statistics, the control of communicable disease, the control of water pollution, industrial hygiene, tuberculosis control, venereal disease control, laboratory services, maternal and child hygiene, nutrition, mental health, public health research and the training of technical personnel, are all matters of much more than provincial interest, and freely cut across provincial boundaries and affect all the population of Canada. In the field of health perhaps more than in any other field, every part of Canada has a definite relationship to and inter-dependence with every other part. We can't effectively fight separate wars in public health.

There are good reasons why the provision of the public health grants should not await the inauguration of the health insurance plan. The return from the armed services of trained personnel will largely take place within the next eighteen months. It is important that the services of the best people should be obtained for this public health work before they are dispersed—perhaps to other countries. It is important also that a solid base of public health services should be laid down on which can be built the health insurance plan. The Government is therefore giving consideration to providing a series of grants on the following basis without waiting for the inauguration of health insurance.

- (1) General Public Health Grant—A General Public Health Grant of 35c per capita annually on the basis of the population at the latest Census of Canada, to be made available to assist the provincial governments in the development of general public health services as

described in the First and Third Schedules to the Draft Health Insurance Bill; provided that a province and its local governments shall continue to expend on these public health services amounts exclusive of the grant, at least as great as those spent previously.

- (2) Tuberculosis Grant—A Tuberculosis Grant not to exceed \$3,000,000 annually to be made available to assist the provincial governments in providing free treatment for persons suffering from tuberculosis and to be distributed as follows:—

- (i) 50 per cent on the basis of the per capita distribution of the population as enumerated at the latest Census of Canada; and
- (ii) 50 per cent according to the average number of deaths from tuberculosis in each province over the previous five years, as certified by the Dominion Statistician,

but the grant to a province not to exceed one-quarter of the total monies, exclusive of capital expenditures, expended by the provincial government and its local governments during the previous fiscal year for the prevention of tuberculosis and treatment of all persons suffering from tuberculosis.

- (3) Mental Health Grant—A Mental Health Grant not to exceed \$4,000,000 annually to be made available to assist the provincial governments in the prevention of mental illness, in providing free treatment for all persons suffering from mental illness and for mental defectives. The Grant to be distributed according to the per capita distribution of the population as enumerated at the latest Census of Canada, but the grant to a province not to exceed one-fifth of the total monies, exclusive of capital expenditures, expended by the provincial government and its local governments during the previous fiscal year for the prevention of mental illness and treatment of all persons suffering from mental illness and for mental defectives.

- (4) Venereal Disease Grant—A Venereal Disease Grant not to exceed \$500,000 annually to be made available to assist the provincial governments in the prevention and free treatment of venereal disease, and to be distributed as follows:

- (i) 50 per cent on the basis of population as enumerated at the latest Census of Canada; and
- (ii) 50 per cent according to the number of new cases of venereal disease reported in the previous calendar year as certified by the Dominion Statistician.

The federal government would match the expenditure of each province up to the limit of each province's share of the grant. The grant proposed here would be in substitution for the existing grant for venereal disease.

- (5) Crippled Children Grant—A Crippled Children Grant not to exceed \$500,000 annually to be made available to assist the provincial governments in meeting the urgent need of an extensive programme for the prevention and treatment of crippling conditions in children, and to be distributed on the basis of the population as enumerated at the latest Census of Canada, or on such other method of distribution as may be arrived at by the federal government after consultation with the Dominion Council of Health.

- (6) Professional Training—An item not to exceed an amount of \$250,000 annually for professional training of personnel in the field of public health to assist the provincial governments in embarking upon an expanded programme of public health services.

- (7) Public Health Research—An item not to exceed \$100,000 annually for Public Health Research to encourage public health research and to assist the provincial governments in meeting emergent conditions.
- (8) Civilian Blind—An amount to be determined annually to be made available to permit the pension age for blind persons to be lowered from 40 to 21 years of age and to provide for treatment of the blind who will benefit therefrom, and of persons suffering from conditions which might lead to blindness, the cost to be financed on the basis of 50 per cent by the federal government and 50 per cent by the provincial governments.

General Conditions—The grants to be conditional upon the Governor in Council being satisfied after consultation with the Dominion Council of Health that the provisions and administration of the general public health services and special services are such as would secure the effective and satisfactory use of the grants to extend and improve these services throughout the province.

Estimated Cost—The maximum cost of these grants to the federal government, on the assumption that they are made full use of by the provinces, and their distribution to the provincial governments would be as follows:—

ESTIMATED COST AND DISTRIBUTION OF PLANNING AND ORGANIZATION GRANT AND HEALTH GRANTS

(In thousands of dollars)

Provinces	Planning and Organization Grant	(1) General Public Health	(2)* Tuberculosis Grant	(3) Mental Health Grant	(4) Venereal Disease Grant
	\$	\$	\$	\$	\$
Prince Edward Island.....	9.8	33.3	25.5	33.0	2.5
Nova Scotia.....	33.9	203.3	178.5	200.6	27.0
New Brunswick.....	27.9	160.1	132.0	158.7	20.0
Quebec.....	171.6	1,166.2	1,107.0	1,156.2	143.5
Ontario.....	194.4	1,325.7	765.0	1,314.3	167.0
Manitoba.....	41.5	255.4	184.5	253.2	32.0
Saskatchewan.....	49.8	313.6	180.0	310.9	29.5
Alberta.....	44.8	278.7	178.5	276.3	31.5
British Columbia.....	45.9	286.3	249.0	283.8	46.5
Total cost to the federal government	619.6	4,022.6	3,000.0	3,987.0	499.5
Provinces	(5) Crippled Children Grant	(6) Professional Training	(7) Public Health Research	(8) Civilian Blind	Total for Health Grants 1 to 8*
	\$	\$	\$	\$	\$
Prince Edward Island.....	4.2	.....	.....	19.5	118.0
Nova Scotia.....	25.0	.....	.....	114.0	748.4
New Brunswick.....	19.8	.....	.....	136.4	627.0
Quebec.....	144.4	.....	.....	452.1	4,169.4
Ontario.....	164.2	.....	.....	284.0	4,020.2
Manitoba.....	31.6	.....	.....	60.2	816.9
Saskatchewan.....	38.8	.....	.....	64.0	936.8
Alberta.....	34.5	.....	.....	47.9	847.4
British Columbia.....	35.4	.....	.....	65.8	966.8
Total cost to the federal government	497.9	250.0	100.0	1,243.9	13,600.9*

*Does not include Planning and Organization Grant, which is non-recurring but does include 350 thousand to be spent by Dominion on Professional Training and Public Health Research.

(d) *Financial Assistance in the Construction of Hospitals*

It is recognized that the provision of complete health insurance services would require a considerable extension in hospital facilities throughout the country. Much of this expansion would be required even for the first stage specified. It is also recognized that this expansion would be desirable quite aside from health insurance in order to provide the proper facilities for treatment and research.

To make a hospital extension program less burdensome to the provincial governments and to local communities, it is proposed that the federal government should provide loans to the provincial governments entering health insurance agreements, and through provincial governments to municipalities and other organizations, for necessary expansion of hospital facilities, at a rate of interest equal to or only slightly above the cost of such loans to the Dominion, and that the interest and amortization would be payable out of the hospital care benefit under the Health Insurance Grant, or out of the Tuberculosis Grant or the Mental Health Grant, as the case may be.

Summary

The National Health Program includes proposals for Health Insurance to provide health services to individuals, Health Grants to assist and extend public health and preventive medicine, a grant for Organization and Planning, and provision for low-interest loans for the construction of hospitals. The federal government is developing its own health services so that in its own field it will be fully prepared to discharge its constitutional responsibilities. In order also to assist the provincial governments in their fields the federal government will be prepared to make its staff available in a consultative capacity and to consider providing the staff and equipment necessary for doing those things which the provincial governments agree are capable of being done most effectively by the federal government.

The National Health Program also contemplates the construction of a National Laboratory as a post-war development project, the extension of health services to the Civil Service, the application of proper health and sanitation standards for the federal government buildings, the development of the National Fitness program, the provision of consultative services for departments of the federal government, and a very great increase, wherever possible, in all fields of co-operation between the federal and provincial governments, so as to press forward the best possible health programme for the people of Canada.

NATIONAL OLD AGE PENSIONS

Changes Ages in Canada

Canada is, by comparison with most countries of the world, a new and young country. This does not alter the fact that even a young country can have an ageing population, and this is true of Canada.

The heavy immigration to this country prior to the last war, the increased expectancy of life that has resulted from the tremendous strides in medical knowledge and public health activity, together with the further fact of a declining birth rate, bringing fewer replacements to the total population as the age of our present population rises with the years, combine to bring about a situation which we must recognize when we begin to plan social security measures for the next few decades.

One fact alone will illustrate the extent to which our population in Canada is an ageing one. The 1941 Census showed total population in Canada of 11,506,000, of which 460,000 were 70 years of age and over. Less than three decades from now, in 1971, on the basis of present estimates, and ignoring the

unknown factors of immigration and emigration, our population will have increased to 13,865,000 persons, of which no less than 977,000 will be 70 years of age and over. In other words, our total population will increase from 1941 to 1971 by almost exactly 20 per cent; while our population over 70 years of age, in the same period, will increase by over 112 per cent. In 1941 one person out of every 25 in Canada was 70 years of age or more; in 1971 one person in every 14 or 15 will be 70 years of age or more. These facts themselves indicate the importance of the problem of providing adequately for our older citizens in any social security plan that we may devise for our country.

Mounting Cost of Old Age Pensions

The first and most obvious conclusion from these facts is that the financial burden of providing for old age dependency is bound to increase progressively through the next 25 years. Experience with our present old age pension scheme since 1936, when all of the provinces finally came into the programme, shows that through the years about 40 per cent of the population, 70 years of age and over, received the old age pension. Aged persons are finding it increasingly difficult under normal conditions to retain their places in the labour market, and this condition is not likely to be reversed in the next 25 years.

Canada's Present Old Age Pension Laws

Before presenting the Government's actual proposals it will be well to review the old age pension scheme as it presently exists in Canada.

The Canadian Old Age Pensions Act of 1927 established a system of old age pensions in Canada administered by the provincial governments, with a federal government contribution of 50 per cent, which was later increased to 75 per cent, of the net cost of all pensions paid. These pensions are available to any British subject who has reached the age of 70 years and has resided in Canada for 20 years, including the 3 years immediately preceding the date of application for pension. The pension is payable only in case of need, and is reduced by the amount of private income of the pensioner in excess of \$125 per annum. The maximum amount of pension to which the Dominion contributes is \$25 per month, but some provinces have added supplemental amounts to which the Dominion does not contribute, the largest of such amounts being \$5 per month.

The basic principles are laid down in the Act, and the provincial governments administer the scheme under separate agreements with the federal government after passing the necessary provincial enabling legislation. There are considerable variations between the provinces in respect of the number of persons obtaining pensions and the average amount of pension paid. Thus, in one province 28 per cent of all persons age 70 and over were receiving old age pensions in 1945, and in another province 57 per cent. Likewise, the amount of average monthly pension varies from \$18.63 per month in one province to \$29.41 (including provincial supplement) in another. Generally speaking, the need for pensions is, as might be expected, greatest in those provinces which are least able to finance such payments out of local revenues.

Deficiencies of the Present Scheme

(1) The means-test is generally recognized as undesirable after a certain age. It has been noted that about 40 per cent of all persons of 70 years of age and over make application, satisfy the means-test requirements and receive pensions. There is little doubt that a very considerable number in addition are not able entirely to support themselves, but are dependent upon their family, and refrain from applying for pensions because of the embarrassment occasioned by the means-test.

(2) The minimum age of 70, though convenient as a dividing line with respect to the payment of any kind of universal old age pension, is nevertheless too high in a number of cases of actual need. A strong case can be made for reducing the age limit to 65 in order to provide assistance, at least for those in the age group 65-69, who are actually in need.

(3) The statutory amount of \$20 per month, although increased to \$25 during the war, may still be too low as a national minimum.

(4) Any broad extension of the present plan would impose serious burdens on limited local revenues in a number of provinces. Even without such an extension, the cost will increase very considerably as the proportion of old persons in the population will continue to rise for thirty or forty years.

Desirable Features for National Old Age Pensions in Canada

In developing its proposals with reference to old age pensions, the federal government has given careful attention to the experience of other countries (in particular the plans and proposals now in operation or under consideration in Great Britain, the United States, Australia and New Zealand), as well as to the economic and social conditions of Canada. In the light of this survey, it appeared that the following principles should be incorporated in the Dominion Government's proposals.

- (a) The scheme should be nation-wide in scope and capable of immediate implementation.
- (b) Benefits should be paid at flat rates and should not in individual cases have to be related to individual amounts or rates of prior contribution.
- (c) Provision should be made for more generous scales of payment and a lower age of eligibility than heretofore.
- (d) To the extent that means-testing procedures may have to be maintained, they should be left as the administrative responsibility of the provinces, who are best equipped to deal with this problem.

Summary of the Federal Government's Proposals

The federal government's proposals are twofold:

(a) National Old Age Pensions at Age 70

As part of the general proposals now put before the Conference, it is proposed that the federal government would establish a system of National Old Age Pensions entirely financed and administered by the federal government, and paid at the uniform rate of \$30 per month regardless of means to men and women aged 70 and over in all parts of Canada.

The cost of National Old Age Pensions by 1948, for example, is estimated at \$200 millions. (For details see Table I below.) There would be a partial recovery from people over 70 paying income tax.

(b) Dominion-Provincial Old Age Assistance at age 65-69

In addition, it is proposed to provide old age assistance for persons of age 65-69, in cases of need and in accordance with local conditions and individual circumstances, under Dominion-provincial agreements broadly similar to those presently existing with respect to old age pensions for persons of age 70 and over, but with certain changes designed to liberalize the conditions under which assistance is given. The proposal is that the provincial governments should administer this old age assistance and that the federal government should contribute 50 per cent of the cost, up to 50 per cent of \$30 per month.

The total cost of this measure by 1948 is estimated at \$34 to \$40 million, of which the federal governments would pay \$17 to \$20 million (see Table I).

National Old Age Pensions at Age 70

The principal feature of the proposed National Old Age Pensions is the elimination of the means-test after reaching age 70, regarding this as unsuitable for the oldest group in the community over 80 per cent of whom are not in fact capable of supporting themselves in useful remunerative work. Payment of pensions as of right to people of this age offers the best kind of economic security. It removes the fear of destitution much more certainly than any other method, and relieves old people of the necessity of seeking work, or of endeavouring to keep on working in unfavourable circumstances and beyond the age at which they should be able to retire, without dependence on charity or burdening the family. In addition to providing a minimum subsistence for those with no other resources, this system would enable other persons with moderate private savings to retire from active work sooner, or in more comfort, than would otherwise be possible.

The removal of the means-test would make it possible for these pensions to be administered by the federal government alone on a uniform national basis, without the necessity for provincial participation, and would therefore considerably relieve provincial finances. As the federal government would be assuming full financial responsibility, it would also administer the payment of these pensions.

Old Age Assistance at Age 65-69

The minimum age for National Old Age Pensions must be definite and fixed; it cannot vary with individual cases. It must be recognized however, that there will be an intermediate age group in which a significant minority of persons will be unable, by reason of age, to support themselves without assistance. These persons who, in fact, suffer from the disability which old age pensions are intended to assist, should not be left with no other resources than local poor relief for the temporary period which must elapse till they reach the qualifying age for old age pensions. Accordingly, it is proposed that the existing system of joint Dominion-provincial old age assistance on a means-test basis, which it is proposed to supersede as regards persons of 70 and over, should be adapted to meet the needs in particular cases of persons of age 65-69, with a federal government contribution of 50 per cent of the cost.

It is clear that the determination of the particular cases in which payments are required for the support of persons aged 65-69 is a matter which requires local administration adapted to local conditions and individual circumstances. It is accordingly proposed that administration be left with the provincial governments. The federal government offers to provide financial assistance and give tangible expression to the national interest in the matter, by contributing 50 per cent of the cost. Such a federal contribution will, in fact, leave the provincial governments under less of a financial burden than their probable expenditure would be under a continuation of the existing scheme for persons of 70 and over. Under the present proposal, the provincial expenditures would of course be very much less than if the existing scheme were simply extended to cover persons of age 65-69, as well as persons of age 70 and over.

Conditions of Eligibility

For National Old Age Pensions the chief conditions of eligibility would be that the applicant had attained the age of 70 and had resided in Canada for a total period of 20 years since age 18, including a period of 3 years immediately preceding the date of application for a pension.

For old age assistance in cases of need for persons aged 65-69, the following conditions would apply:

- (a) Completion of a period of residence in Canada of the same length of time as that required for National Old Age Pensions.

- (b) Maximum payment to which the Dominion would contribute to be \$30 per month.
- (c) Maximum payment to be reduced by the amount of the applicant's personal income (if any) in excess of \$125 per annum. In computing the income of the recipient for purposes of this means-test, moneys received from other sources not for the recipient's own use to be excluded. The pension would only be reduced to the extent that the pensioner had outside sources of personal income for his or her own use.
- (d) The provinces would be asked to agree that old age assistance would in every case be provided by the province in which the applicant currently resides, without abatement because of previous residence in another province, and without the need for reimbursement and mutual accounting between provinces in such a case.
- (e) The existing requirement that payments made by way of old age pension must be recovered where possible from the estate of the recipient after his death would be abolished.
- (f) In other respects, the conditions of the present means-test scheme would be continued without important changes.

Welfare Services to the Aged

The proposed provision of income payments by the federal government for persons of age 70 and over would not mean that the usual provincial welfare services would not also be required in particular cases. The federal government is not proposing to enter this field, which is properly one of provincial responsibility. Indeed it would be essential that the provinces should continue to provide welfare services where necessary for persons of age 70 and over, as well as for those under 70.

TABLE 1

ESTIMATED COST OF FEDERAL OLD AGE PENSIONS PROPOSALS

(All figures in \$ millions; administrative costs not included, estimates based on 1948)

	Total cost	Dominion share	Provincial share
1. <i>Cost in 1948 under new proposals</i>			
National pensions, age 70 and over.....	200	200	nil
Assistance on basis of need, age 65-69.....	34*	17	17
Combined cost, pensions and assistance.....	234	217	17
2. <i>Cost under existing scheme</i>			
(a) Actual cost in 1944.....	56	40	16**
(b) Est. cost in 1948 at present rates—			
Age 70 and over.....	69	48	21**
Age 65-69 (if scheme extended).....	29*	20	9**
Age 65 and over (if scheme extended).....	98	68	30**
(c) Est. cost in 1948 at \$30 per month—			
Age 70 and over.....	80	60	20
Age 65-69 (if scheme extended).....	34*	26	8
Age 65 and over (if scheme extended).....	114	86	28

*Estimates with respect to the age group 65-69 are affected by some uncertainty as to the proportion which would require assistance. The total cost might be \$5 million greater than the amounts shown.

**Provincial costs at present rates include provincial supplements, which would presumably disappear if the basic rate were increased to \$30 per month.

TABLE II
ESTIMATE OF COST OF OLD AGE PENSIONS IN 1948 BY PROVINCES
I. Cost under Proposed New System (in \$ millions)

Province of residence of pensioners	Dominion Government			Provincial Govern-ments	All Govern-ments
	Age 70+	Age 65-69	Total		
Prince Edward Island.....	2.2	0.2	2.4	0.18	2.6
Nova Scotia.....	11.9	1.3	13.2	1.3	14.5
New Brunswick.....	7.9	1.1	9.0	1.1	10.1
Quebec.....	44.6	4.4	49.0	4.4	53.4
Ontario.....	77.8	5.4	83.2	5.4	88.6
Manitoba.....	12.2	1.2	13.4	1.2	14.6
Saskatchewan.....	12.2	1.2	13.4	1.2	14.6
Alberta.....	11.5	1.0	12.5	1.0	13.5
British Columbia.....	19.8	1.3	21.1	1.3	22.4
9 Provinces.....	200.1	17.0*	217.1	17.0*	234.1

II. Comparison of Provincial Costs, Present and Proposed Systems (in \$ millions)

	New system	Present system at 1945 rates		Present system at \$30 per month	
	Age 65-69	Age 70+	Age or 65+	Age 70+	Age or 65+
Prince Edward Island.....	0.18	0.13	0.20	0.21	0.30
Nova Scotia.....	1.3	1.2	1.7	1.6	2.2
New Brunswick.....	1.1	0.9	1.3	1.3	1.8
Quebec.....	4.4	4.1	5.9	5.2	7.4
Ontario.....	5.4	7.7**	10.9**	6.4	9.1
Manitoba.....	1.2	1.1	1.6	1.4	2.0
Saskatchewan.....	1.2	1.7**	2.4**	1.4	2.0
Alberta.....	1.0	1.7**	2.4**	1.2	1.6
British Columbia.....	1.3	2.2**	3.2**	1.5	2.1
9 Provinces.....	17.0	20.8**	29.6**	20.0	28.4

*Costs under the proposed new system for persons aged 65-69 are estimated on the assumption of (1) full rate of \$30 in each province (2) 25% of national total of persons aged 65-69 being eligible for pension on means-test basis, and (3) distribution of national total among provinces in same proportion as that of pensioners aged 70 in 1941. Assumption (2) may be conservative; the total cost to Dominion and provinces might be \$40 million instead of the \$34 million here estimated.

**Provincial costs at 1945 rates include an estimate of the cost of provincial supplements in the cases of Ontario, Saskatchewan, Alberta and British Columbia. These supplements would presumably disappear if the joint Dominion-provincial rate were raised to \$30.

TABLE III
NUMBER OF OLD AGE PENSIONERS BY PROVINCES

	of Dominion totals 1941 in	Number of Pensioners, means-test system			No means-test (total persons)	
		Age 70+ 1941	Age 70+ 1948	Age 65-69 1948	Age 70+ 1948	Age 65-69 1948
		Actual	Forecast		Forecast	
Prince Edward Island.....	1.1	1,987	2,389	1,010	6,000	4,000
Nova Scotia.....	7.8	14,454	17,280	7,330	33,000	18,000
New Brunswick.....	6.3	11,747	14,050	5,950	22,000	13,000
Quebec.....	25.8	48,000	57,410	24,330	124,000	83,000
Ontario.....	31.8	59,224	70,860	30,020	216,000	137,000
Manitoba.....	6.8	12,727	15,220	6,450	34,000	25,000
Saskatchewan.....	7.0	13,111	15,680	6,650	34,000	30,000
Alberta.....	5.8	10,746	12,850	5,450	32,000	27,000
British Columbia.....	7.5	13,942	16,670	7,070	55,000	40,000
Total, 9 provinces.....		185,938	222,400	94,250	556,000	377,000

NOTE.—The 1948 forecast for number of pensioners under a means-test system is derived by ascribing to each province the same percentage of the Dominion total as in 1941. The percentage distribution of pensioners by provinces has been remarkably steady from 1938 to 1945. For present purposes it would seem to be sufficiently accurate to base the 1948 forecast on 1941 percentages.

TABLE IV
FORECAST OF TOTAL POPULATION, NUMBER OF PERSONS AGED 65-69, AND
NUMBER OF PERSONS AGED 70 AND OVER, BY PROVINCES
(in thousands)

	1941 Census			1944 (Est.)			1948 (Est.) Forecast		
	Total	65-69	70+	Total	65-69	70+	Total	65-69	70+
Prince Edward Island.....	95	3	6	91	4	6	95	4	6
Nova Scotia.....	578	17	30	612	17	31	636	18	33
New Brunswick.....	457	12	20	462	12	22	491	13	22
Quebec.....	3,332	71	105	3,500	75	113	3,680	83	124
Ontario.....	3,788	116	185	3,965	126	198	4,051	137	216
Manitoba.....	730	19	27	732	21	30	762	25	34
Saskatchewan.....	896	20	26	846	24	28	891	30	34
Alberta.....	796	19	23	818	22	26	857	27	32
British Columbia.....	818	30	38	932	36	45	943	40	55
9 Provinces.....	11,490	307	460	11,958	337	499	12,406	377	556

		Total	65-69	70+
1961	All Provinces.....	13,491	474	813
1971	All Provinces.....	13,865	556	977

(All figures from Dominion Bureau of Statistics.)

NOTES.—The national totals make no allowance for net immigration to Canada from other countries, or net emigration from Canada to other countries, subsequent to 1944; this factor has been of little significance in the 15 years.

The estimates for 1944 take account of interprovincial migration since the 1941 census, but it is impossible to predict the direction and extent of such a movement in the future; accordingly, no forecast of distribution by provinces is given for years subsequent to 1948; for that year, the forecast is based on the age distribution of the 1944 population of each province and projected mortality rates, with no allowance for any interprovincial migration.

Implementation and Financing of Old Age Pensions and Health Insurance

The National Health Programme, including the scheme of health insurance, as set out in this brief is part of the broad set of proposals which the Dominion Government is laying before this Conference. In effect, it provides for Dominion assistance to a series of provincially-administered health plans. For it, as for other proposals, the Dominion Government desires the consideration of the Conference. In addition, the specific agreement of the individual provincial governments is necessary in order to implement the health plan in their respective provinces.

Similarly, it is proposed that old age pensions to persons between 65 and 70 years of age and in need should be provincially administered and thus subject to specific agreement.

The proposed system of old age pensions payable as of right without means test to persons 70 or over would be instituted and administered by the Dominion Government and specific agreements with provincial governments would not be essential to its implementation.

It is within the power of the Dominion to finance its share of the combined cost of health insurance and of old age pensions out of the Consolidated Revenue Fund with such modification of taxation as would be justified, in the opinion of Parliament, by the universal benefits of health insurance and old age pensions and by the other purposes of Dominion expenditure.

There are, however, some definite advantages, in terms of administrative efficiency, compliance, and popular understanding of the plans, in introducing features, more specifically contributory in nature and tied up more closely with the provisions of health insurance and old age pension legislation. These additional and desirable features would be helpful in the early and effective inauguration of the plans and the Dominion Government asks that they be provided for in specific agreements with the provincial governments.

HON. HUMPHREY MITCHELL (*Minister of Labour*): Mr. Chairman and gentlemen, this section deals with unemployment assistance:

Unemployment Assistance—Unemployment Insurance and Unemployment Assistance Benefits

Over the past seven or eight years there have been recommendations by the National Employment Commission, the Sirois Commission and others, that the Dominion should assume responsibility for necessary relief to the employable unemployed. It has been generally suggested that the Dominion should accept this obligation as part of any general settlement with the provinces.

The Dominion established in 1941 a scheme of Unemployment Insurance, which guarantees payments in the event of unemployment to a group numbering about 2,300,000 out of a total present number of about 3,000,000 wage and salary earners. In addition, all those of the 760,000 now in the armed forces who enter insured employment upon demobilization will be covered in due course. The coverage is incomplete and the duration of payments is limited, so that provincial governments and municipalities may feel that they are still subject to the possibility of heavy relief problems if unemployment on a substantial scale should develop.

The Dominion Government in its statement on Employment and Income announced that the maintenance of a high level of employment and income was "a primary object of policy." The people of Canada and the provincial and municipal governments are thus assured of an active Dominion policy to avoid and combat unemployment, but there is no underlying guarantee of payment of unemployment assistance by the Dominion Government if in fact unemployment should develop as a result of a possible world depression, or as a result of unavoidable dislocations beyond the immediate control of federal authority.

As part of the general arrangement with the provincial governments, the Dominion Government now proposes to establish a practicable and comprehensive system of assistance to able-bodied unemployed persons as soon as possible, rather than waiting until the need for it actually arises. It is thought necessary not to permit the recurrence of the problems of administration being separated from financial responsibility, and to avoid the make-shift arrangements and controversy with provincial governments which otherwise would be almost certain to recur under the old methods of providing relief even though the number of persons involved were small. The Dominion is therefore accompanying its proposal for general acceptance of responsibility with a concrete plan for its implementation in the field of assistance for employable unemployed persons.

Necessary Requirements of a Dominion Scheme of Unemployment Assistance

- (a) Such a plan must fit into and make the maximum use of the structure and machinery of the existing Unemployment Insurance system. It would not be sensible to set up a different system requiring a different kind of administrative machinery and applying tests different from those used in unemployment insurance.
- (b) In particular, it is neither desirable nor feasible to base Dominion assistance upon the application of a means-test in the sense of a thorough going assessment of the total resources of the individual or family concerned. The provision of relief under a means-test, where such a system is necessary, is much more suitable for provincial and municipal responsibility and administration, as the circumstances to be taken into account will depend to a very large degree upon local conditions and local policies. The principle of Dominion policy on the other hand is not the provision of relief, but the assurance of either a job or of a subsistence income in lieu of a job, if necessary for a substantial period of time, available to employable persons who are able and willing to obtain a job whenever possible. The Dominion regards it as desirable, however, at least in the early stages, to apply a test in the case of unemployment assistance as distinct from unemployment insurance and accordingly unemployment assistance would not be provided for persons who, by reason of independent income or family status, are not dependent on employment for a livelihood.
- (c) A further requirement is that the Dominion plan should not attempt to establish differentials in rates of benefit between provinces, or between localities in a province, or between rural and urban areas as such; national action of this sort must be based upon a uniform national system.
- (d) The plan proposes acceptance of Dominion responsibility for unemployed employables, and provincial and local responsibility for unemployables, but it is recognized that this division presents problems of definition in some individual cases, and that in operating practice the only final test of employability is ability to get and hold a job.

Outline of Dominion Proposals

The Dominion Government would accept responsibility for ensuring that there shall be provided a reasonable minimum payment for the maintenance of employable unemployed persons through

- (a) the extension as rapidly as possible of unemployment insurance to cover all employees, and
- (b) in the period when such extension is being carried out and before insurance benefits properly so-called can be built up, by instituting a system of unemployment assistance to be administered in close co-operation with the Unemployment Insurance Commission and applying

the same tests and procedures. (In so far as the Dominion policies of unemployment insurance, unemployment assistance, old age pensions, and family allowances fail to meet a few special cases or special local situations, there would remain a small portion of unemployment expenditures to be dealt with as before by the provinces and municipalities, independently of the Dominion.)

Extension of Unemployment Insurance

The scope of the present Unemployment Insurance scheme does not extend to

- (i) those previously employed persons whose employments are not at present insured. The largest groups at present are farm employees, domestic servants, certain government employees, and office employees receiving \$2,400 or more;
- (ii) insured persons who do not qualify for or have exhausted their benefits in prolonged unemployment;
- (iii) young persons who have not been able to start employment;
- (iv) previously self-employed (farmers, tradesmen, trappers, etc) who give up their enterprise and seek employment.

As rapidly as possible the Unemployment Insurance Act will be widened to embrace all employed persons. It is recognized, of course, that the Act cannot be immediately extended to the irregular employments, or to those in which as a general rule there are only one or two employees per employer; time is required to overcome the difficult administrative problems of collection of insurance contributions in such cases. However, the Act can and will be extended promptly wherever possible. Consideration will be given to the advisability of including persons in government and municipal service and those monthly-rated employees now outside the Act because of having wages in excess of a stated maximum.

As already stated the objective would be to bring into insurance in a relatively short time the whole employed population; when this had been accomplished the only employees who might require assistance, in contrast to insurance, would be those who had exhausted their insurance benefits or failed to qualify. By that time experience with the extended insurance scheme would enable a decision to be made whether to extend the duration of benefits and shorten the period of qualification for insurance.

Provision of Unemployment Assistance

The Dominion would establish a system of unemployment assistance for able-bodied unemployed persons who have no benefit rights under the Unemployment Insurance Act. This would be particularly valuable in the interval while unemployment insurance is being expanded. If ultimately unemployment insurance can cover all possible cases, it would be possible to dispense with unemployment assistance, and in any event its scope would diminish to the extent that unemployment insurance is broadened.

In general terms, the qualifications for unemployment assistance would be

(1) that the individual had been an employee for a minimum specified time, or being a young person could be expected to have been employed had it not been for employment conditions at the time when he entered the labour market;

(2) that he is available and fit for employment;

(3) that he is unemployed through no fault of his own; and

(4) that he is not entitled to benefits under the Unemployment Insurance Act.

It is proposed that some kind of a simple test would be adopted so that unemployment assistance would not be provided to those who are not dependent on their own employment for a livelihood or to those who have an adequate income independent of employment.

In the case of an insured person who has exhausted insurance benefits, or who lacks the full qualification for insurance benefits, the scale of assistance would be approximately 85 per cent of the insurance benefit to which such person's contribution class previously entitled him or would in due course entitle him. In the case of a person who is not insured but for whom there is a record of previous employment, the scale of assistance would be approximately 85 per cent of the benefit rate to which he would have been entitled if insured. In the case of persons who are not insured and who have no adequate record of previous employment, assistance would be provided at a flat-rate which would not conflict with insurance benefits or wage rates for comparable employed persons.

It should be noted that family allowances will always be paid irrespective of employment, and no deduction would be made from either unemployment insurance benefits or unemployment assistance by reason of the fact that family allowances may also be received by the person concerned.

If it should be deemed necessary by any municipality for it to supplement the rates of assistance available in any particular cases, the provision of such a supplement would remain a matter for the provincial government or the municipality concerned, and subject to whatever conditions they wish to apply for purposes of the supplement.

A person who ceases to be employable would not be eligible for unemployment assistance. In the absence of more specific evidence of unemployability, a person who has remained on assistance for a period of two years, without being able to obtain or keep employment other than of a casual nature, would be declared ineligible and transferred to the responsibility of the provincial government and municipality.

Self-employed Persons

The Dominion Government recognizes that these proposals would not provide unemployment insurance or unemployment assistance for the owners of business and other self-employed persons who might be unable to continue in their ordinary occupation as a result of depression conditions, and who might at such time enter the labour market without any previous employment record. Unemployment insurance is obviously impossible in such cases, and the provision of unemployment assistance is basically unsuitable except for persons who are normally employed for wages. The major goal is universal insurance for all employees, and proposals to this end are not adaptable, with reference either to the collection of insurance contributions or to the establishment of appropriate scales of benefit payments, to the provision of economic and financial assistance for self-employed persons. To the extent that such persons are in need of assistance, this residual problem, which is not large financially, is one that would require local action.

Financing Unemployment Assistance

Payments for unemployment assistance would be made under authority of an appropriation for this purpose, out of the Consolidated Revenue Fund, and not out of the Unemployment Insurance Fund.

Extended Employment Services

The proposed extension of unemployment insurance and the introduction of Dominion unemployment assistance would greatly increase the administrative responsibilities of the Employment Service. In addition the Dominion would have a greatly increased interest in the effective operation of vocational guidance and vocational training schemes as an aid to providing employment.

The Employment Service

At the outbreak of war in September 1939, there was no National Employment Service in the sense that we now understand that term. Under the Employment Offices Co-ordination Act of 1918 there was a degree of co-operation in the administration of the provincial Employment Services, the operation of which was aided by Dominion grants. The Unemployment Insurance Act, 1940, directed the Unemployment Insurance Commission to "organize and maintain an employment service for Canada..." and "to collect information concerning employment for workers and workers seeking employment...with a view to assisting workers to obtain employment for which they are fitted and assisting employers to obtain workers most suitable for their needs".

The newly formed Employment Service under the Unemployment Insurance Act had been in operation for only nine months when the first National Selective Service Regulations came into effect to meet the unusual manpower problems and acute shortages brought about by the war. These manpower controls would be neither suitable nor desirable for a peacetime economy and already long strides have been taken towards relaxation. However, as a result of the valuable experience gained in the administration of the Employment Service, it seems probable that certain controls are a prerequisite to the operation of a free Employment Service.

It is difficult to visualize an efficiently operated Employment Service that does not have a reasonably complete picture of all vacancies and the number of persons seeking employment, together with trends and prospects of labour supply and demand.

This information is essential (a) to the planning of employment projects and even fiscal policy; (b) to assure that unemployment insurance benefit and unemployment assistance is paid only to those who cannot be referred to suitable employment; (c) to assist in the rehabilitation of ex-servicemen; and (d) to the effective carrying out of the Dominion Government's policy of preference in referral to employment for veterans who have had overseas service or who are in receipt of a pension.

Employment officers must be equipped with the information necessary to carry out their responsibilities. Briefly this means that while employers would be entirely free to select and hire the employees of their choice, it is desirable that they should be legally required to notify the Employment Service of all vacancies, engagements and separations, and that unemployed persons desiring employment should be required to register at the employment offices. The Employment Office would thus be essentially a referral agency, not an agency of final selection of a person for a job.

Vocational Guidance

Valuable assistance in the choice of an occupation may be given by organized vocational guidance which would take into account employment trends and opportunities, the type of available job to which the individual is best suited, the physical requirements of jobs, and the amount of preparation and training necessary for their successful performance.

Farm Labour Program

The Dominion-Provincial Farm Labour Programme has been developed to deal with manpower problems in agriculture and related industries arising out of serious wartime shortages of labour. From co-operation on a financial basis in the Province of Ontario in 1941, the programme has been broadened to include joint activities with all nine provinces in recruiting, transporting and placing workers on farms and in closely related industries.

Close co-ordination of federal and provincial agencies has been achieved through the Dominion-Provincial Farm Labour Committees in each province, and agreements have been signed with each provincial government providing for equal sharing of certain expenditures incurred. In view of the increased importance of food and the likelihood of farm labour shortages arising at least during the transition period, there is need for a continuation of the present close co-operation with regard to the Farm Labour Programme.

Placement of Physically Handicapped

Occupational Rehabilitation was originally developed for the benefit of the so-called "industrial cripple", and was designed to supplement the service rendered by Workmen's Compensation. The promoters of rehabilitation legislation have advocated the extension of the service to persons incurring disabilities as the result of accidents other than industrial, and as the result of disease or from congenital causes. The vocational adjustment of persons with physical defects from a condition of dependence upon society to a status of independence may be regarded as the responsibility of society. The aim is not merely to place a disabled person into any kind of work, but into the most suitable work, that is, the most skilled work of which he is capable. All the jobs in any community do not require the full use of all the physical abilities of workers. There are many which persons with less than full physical capacity can perform with entire satisfaction to the employer.

Some provinces have already instituted plans for vocational rehabilitation in connection with their Workmen's Compensation Acts, and many national organizations and social welfare agencies and local groups have done excellent rehabilitation work.

It is proposed to consider making the Occupational Rehabilitation service available to all disabled persons regardless of the cause of disability. The suggestion offered is that a Dominion-provincial plan will be the one best suited to Canadian conditions.

Many of the services are provincially and municipally administered. Since the Employment Service is concerned with placement into jobs, the administration of a rehabilitation scheme should be closely co-ordinated with that service.

Effective placement of the physically handicapped into occupations could best be accomplished by the inauguration of a national scheme of Occupational Rehabilitation available to all disabled persons whose physical rehabilitation is feasible of rendering the individual employable or more advantageously employed.

It is suggested for consideration that the costs of administration of the rehabilitation service be borne by the federal government, and the costs of rehabilitation of the individual be shared equally by the federal and provincial governments.

Vocational Training

The present legislative authority for co-operative vocational training between the Dominion and the provinces is contained in the Vocational Training Co-ordination Act passed in 1942. This Act superseded the Youth Training Act

of 1939 and broadened very materially the scope and types of vocational training to be carried on. The Youth Training Act of 1939 had provided legislative authority for the Dominion-Provincial Youth Training programme inaugurated in 1937 as a relief measure to train unemployed young people under the Unemployment and Agricultural Assistance Act.

The Vocational Training Co-ordination Act set up an advisory council to advise the Minister on various types of vocational training, and included representatives of provincial Departments of Education.

Co-operative plans now in operation include—

- (a) training for war industries and tradesmen for the Armed Forces;
- (b) vocational training for ex-service personnel;
- (c) apprenticeship training;
- (d) other training.

Projects proposed for the post-war period are—

(a) Retraining of Industrial Workers

An agreement lasting for three years has been drafted and approved by the provincial governments.

(b) Dominion Assistance to Vocational Schools

P.C. 1648 of March 8, 1945, authorizes the Minister of Labour to enter into agreements lasting for ten years with any provincial government to provide Dominion assistance to vocational training on a level equivalent to secondary school level.

The Order in Council provides for—

- (i) a lump sum in the form of a Dominion grant not matched by the provincial government, of \$5,000 to Prince Edward Island and \$10,000 to each of the other provincial governments.
- (ii) allotting among the provincial governments an annual amount of \$1,915,000 for a period of ten years, this amount to be matched by each provincial government and allotted in accordance with the number of young people aged 15 to 19 in each province.
- (iii) allotting \$10,000,000 for capital expenditures on buildings and equipment for immediate expansion of vocational training facilities on the following conditions:—

That each provincial government match the Dominion contribution.
That the grant be used during the next three-year period.

That in the use of buildings or equipment acquired through this grant, rehabilitation training must have priority.

The agreement has been under discussion with the provincial governments and it is hoped that it will be generally acceptable to them.

Mr. ST. LAURENT: Is it your pleasure, gentlemen, that we should continue and conclude the reading of this brief to-night?

Some hon. MEMBERS: Adjourn.

Mr. ST. LAURENT: Then we will adjourn until ten o'clock to-morrow. It will take only about thirty or thirty-five minutes to finish the brief and that will leave us free in ample time to attend the reception for General Crerar.

The Conference adjourned at 10.45 p.m.

APPENDIX

THE FOLLOWING IS THE ENGLISH TRANSLATION OF THE
SPEECHES MADE IN FRENCH

Hon. MAURICE DUPLESSIS (prime minister of the province of Quebec): Mr. prime minister of Canada, Messrs the provincial premiers, and Messrs delegates, it is fitting, and justly so, that on the opening of this Dominion-provincial conference I should raise my voice in the language of the majority of the people in the province which I represent, the language of those men who have made such a noble and grand contribution to the founding of this country and even of an important part of America.

I am not here as the leader of a political party and I have not come to meet political party leaders. I am here as a Canadian who leads a provincial government, who speaks and wishes to act as the prime minister of a province, and to discuss some matters with the prime ministers of other provinces and the premier of Canada, solely from a Canadian and constitutional standpoint, without any allusion to partisanry, and outside every party consideration.

The province of Quebec is glad to participate in this Conference; it has always been and always will be an asset in the Canadian Confederation. But we believe in the Canadian Confederation. We are opposed to centralization of power. We consider the British North America Act as a contract which has been ratified by the Westminster Parliament, which has kept its contractual character and which cannot be amended by the contracting parties. We consider that the provinces hold certain exclusive powers which they have a right to keep. The few claims we put forward are not merely an echo of Quebec's voice, but they reflect at the same time our desire to respect the Confederation pact as it applies to all provinces and to the country at large.

We are here to collaborate and co-operate. Co-operation and collaboration can never exist where solemn pledges are disregarded and pacts are violated. There are constitutional means, and constitutional methods for reaching the agreement we desire and expect, and for the achievement of which we are going to do our very best. In other words, let us ever co-operate and collaborate in the interest of the country and in conformity with the rights of all, always keeping in sight the progress of the country in general and of the provinces in particular.

Hon. L. S. ST. LAURENT: I am sure that everyone will agree that I should even at this hour very briefly echo in French the words of welcome and thanks addressed, in his own behalf and in behalf of all his colleagues, by the Prime Minister to all those present here to-day to attend this Dominion-provincial Conference on Reconstruction.

It would be idle to translate or repeat them in French, but on behalf of my French-speaking colleagues and myself, I wish to say that we fully endorse his message.

I take the liberty, however, of translating the following three paragraphs in order to stress them in a special manner:

The Prime Minister said:

"I am sure I may say on behalf of all present that we are meeting together in conference with one overriding objective which we hold in common: the development of our homeland from coast to coast, and the progress and welfare of the Canadian people.

"It is true that the primary responsibility of each provincial government is to the residents of its own province. But the fact that we are met together in conference is, in itself, a recognition that the interests of each province are inseparably bound up in the common good of all.

"In the proposals which the Dominion Government will place before the Conference, my colleagues and I have, as is our duty, given first consideration to what we believe to be in the interests of Canada as a whole. But we have sought always to keep in mind the paramount fact that Canada is a federal state in which each of the provinces has its own special characteristics and special problems. The Dominion's proposals have been so framed that provincial and national governments alike would be strengthened in their capacity to perform their appropriate functions. Our sincere desire is to have the proceedings of the conference carried on in an atmosphere in which, because of the respect accorded the appropriate sphere of each government, the greatest possible cooperation will be achieved."

It may be that our initial discussions on these proposals and others which will, doubtless, be submitted by the provincial representatives, will bring to light certain differences of views on the best means of strengthening each administration in its capacity to perform the functions inherent in the part it plays within the federal state. I dare hope that none of these differences will be irreconcilable and that our discussions will give rise to decisions which will ensure the necessary co-operation while evidencing a real and effective respect of the fields of action belonging to each administration.

PLENARY SESSION — No. 2



DOMINION-PROVINCIAL CONFERENCE

ON

RECONSTRUCTION

Tuesday, August 7, 1945

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

DOMINION-PROVINCIAL CONFERENCE ON RECONSTRUCTION

HOUSE OF COMMONS, OTTAWA, AUGUST 7, 1945

REPORT OF PROCEEDINGS

The Dominion-Provincial Conference on Reconstruction met in the Commons Chamber at 10 a.m., the Prime Minister, the Right Hon. W. L. Mackenzie King, presiding.

DOMINION OF CANADA PROPOSALS

RIGHT HON. W. L. MACKENZIE KING (Prime Minister): I understand that last evening the Proposals of the Government of Canada were before the Conference up to the Section on Financial Arrangements. The Minister of Finance (Mr. Ilesley) will now give to the Conference that portion of the proposals.

HON. J. L. ILSLEY (Minister of Finance): Mr. Chairman and gentleman, I shall now deal with the Financial Arrangements.

FINANCIAL ARRANGEMENTS

Background of Proposals

The financial proposals, like the other proposals which have been presented, are directed to the achievement of high and stable employment and income, and the greater welfare of the Canadian people.

There is some danger that six years of feverish war activity may have dimmed our recollections of the financial and other problems which harassed this country before the war.

In the first place, according to the Royal Commission on Dominion-Provincial Relations, we had before the war a combined tax system which, as a whole, was highly regressive and, to an unusual degree, consisted of taxes on costs. It was in the view of the Commission, a tax system which hampered enterprise and restricted income and employment. A tax system which could be so described would be completely incompatible with the policies to which the Dominion Government is committed and would rob those policies of any chance of success.

In the second place, the financial resources of provincial and municipal governments had proved quite inadequate for the burdens which the world depression had forced on them—burdens which were not created by the provincial governments and which were not under their control but which under existing Dominion-provincial arrangements, fell on them with great severity and with very unequal force. The improvised arrangements for grants-in-aid and inter-governmental loans had not provided any last financial solution. On the contrary, they merely postponed the reckoning and contributed to a deterioration in relations among the provincial governments and the Dominion.

In the third place, it is not too much to say that the whole federal structure of our country was undermined by the prewar financial arrangements under which provincial governments were dependent for large proportions of their revenue on uncertain federal grants determined annually. The type of provincial government conceived by the Fathers of Confederation, independent in its own sphere of responsibility, was impossible under pre-war conditions. Effective co-operation among governments in meeting national problems was equally impossible.

Early in the war it became necessary to take financial measures on a much greater scale than any which we had previously experienced. Income tax rates had to be increased to very high levels and excess profits were taxed at 100 per cent. By these and other taxation measures and by the encouragement of private savings the war budget was financed and the increases in national income were channelled to the purposes of war. The wartime tax agreement with the provincial governments were an integral and essential part of this financial programme. Under those agreements, the provincial governments were compensated for their taxes and the Dominion imposed uniform taxation in the fields of personal incomes and business profits. These agreements are serving an essential purpose, but they are wartime agreements, static and restrictive, and it is not proposed that they be extended beyond their termination date.

As the end of the war approaches, both the Dominion and the provincial governments face new conditions and new problems. After the war, Dominion Government annual expenditures attributable to two world wars and continuing national defence alone will amount to substantially more than double the expenditures of all the provincial governments combined. On the other hand, thanks to the buoyancy of wartime revenues and the decline in relief and similar expenditures, provincial governments have been able to make substantial reductions in their debts and the cost of debt service. For provincial governments the financial outlook is good, if they can be assured of stability and growth in their revenues and of no recurrence of heavy relief expenditures.

It has already been made clear that reversion to the conditions of 1939 and earlier years is not what the Dominion Government considers to be a satisfactory transition from war to peace. A relapse to pre-war conditions will not be considered tolerable by the vast majority of the people of this country. Canada will emerge from the war, with greater capabilities, broadened experience, and heavier responsibilities. She must go forward from her wartime achievements and not backward.

Equally in the field of financial arrangements, it is not the intention of the Dominion Government to consider a return to pre-war arrangements a practical or tolerable alternative. We propose to seek bolder solutions. Post-war financial arrangements among the ten governments concerned must be such as will meet fairly and effectively, in the interests of the Canadian people, the problems with which we are confronted.

Objectives of Dominion Proposals

It appears to the Dominion Government that these arrangements should meet four requirements if they are to be acceptable to the Canadian people.

First, they should make possible a reorganization of the taxation system carefully designed to encourage rather than restrict enterprise, investment and employment. During the war, taxation has been built up to very high levels, levels justified in war but in peacetime incompatible with policies designed to promote the expansion of employment and income. In many of its features, the system of wartime taxation was purposely designed to discourage spending and discourage expansion of civilian industry and employment. Post-war taxation should be substantially reduced from wartime levels, but in addition, it

should be so adjusted that necessary revenues are obtained with the least possible discouragement to investment and employment. Such adjustments cannot be successfully made by competing jurisdictions nor can the maximum reductions be accomplished.

A second requirement is that the Dominion should have the financial resources to finance, when necessary, substantial deficits with unquestionable credit. In carrying out its employment policy it will at times be necessary for large deficits to be incurred while at the same time expenditures are being increased or taxation reduced in order to aid employment. If it is to carry deficits at times when they are necessary for the maintenance of employment and income, the Dominion should be in a position to recapture in periods of high employment and vigorous business activity revenue from rising incomes and profits. The counterpart of this is that the provincial governments should be assured of more stable revenues.

The third requirement of post-war financial arrangements is that they should make possible at least an adequate minimum standard of services in all provinces while not denying to any province the advantages which its resources give to it nor the freedom to establish its own standards.

The fourth requirement is that the Dominion-provincial financial arrangements must be such as to strengthen, not weaken, the federal system established in our constitution. They must be such as will give to the provincial governments a dependable financial basis on which to operate and assure them of freedom to make the decisions for which they are responsible, independently of the Dominion.

The financial proposals which the Dominion Government makes must be assessed by these requirements and against the background of the other proposals in this brief—proposals which are aimed at carrying out within a federal system policies for the maintenance of a high and stable level of income and employment and which would have the effect of maintaining provincial government revenues, relieving provincial and municipal governments of the menace of heavy unemployment expenditures, and assisting them in the extension of their services and in the conservation and development of their resources.

The Dominion Tax Proposals

The Dominion Government proposes that after the war the provincial governments should by agreement forego the imposition of personal income taxes, corporation taxes and succession duties, leaving the Dominion Government the full and exclusive access to these revenue sources. The Dominion Government further proposes that as a condition of such agreement the Dominion should substantially expand its present payments to the provincial governments under an arrangement which would ensure stable revenues and provide for their growth in proportion to increases in population and per capita national production. Although any provincial government would have the right to withdraw from the arrangement at any time since it is not proposed to seek a constitutional amendment, the Dominion proposes an agreement under which the provincial governments would commit themselves not to withdraw before an initial trial period of say three years.

These fundamental proposals are not lightly made. The continuing expenditures arising out of the war will be heavy. National progress and the fulfilment of necessary international commitments both require the Dominion Government to undertake a large programme of national development and national welfare. It will clearly need to make full use of its power to impose national taxes on personal incomes, corporations and estates. Its revenue needs will be so great that duplication of these taxes by other governments would seriously restrict enterprise and output and would jeopardize Canada's employment programme.

The organization of business and mobility of wealth are such that income earned or wealth accumulated from activities in one province may for taxation purposes be subject to the jurisdiction of another provincial government. Provinces in which corporation head offices and wealthy individuals are most numerous automatically enjoy an opportunity to tax incomes and wealth derived from other provinces. Provincial governments which do not have such opportunities, if they are dependent on income, corporation and estate taxes, will after the war, as before it, be limited to an unjustifiably low level of provincial services. Even to maintain minimum services they will be driven, as they were before the war, to high taxes on incomes, corporations and estates by arbitrary and makeshift devices. All the tax-payers affected will suffer, and more than before the war because total taxation will be higher. Small producers and exporters will suffer particularly, as well as those with income or property in several provinces. National reconstruction will be hampered and frustrated.

If the provincial governments revert after the war to a tax base which is unfairly divided, financial pressure on the less-favoured provinces will certainly give rise to increasing interference with interprovincial trade. It may well lead to ill-advised extension of government ownership and operation of business merely to obtain necessary government revenues. Neither of these developments would strengthen Canada's federal system. They would operate to prevent private enterprise from playing its full and necessary part in post-war reconstruction.

Income and corporation taxes and succession duties are highly variable in their yield, and more so in any one province than over the Dominion as a whole. The provincial governments, having limited borrowing powers, would be forced to raise taxes when economic conditions were unfavourable, and when such action would hamper economic recovery. The Dominion, on the other hand, has a broader and less variable ability to borrow. It can manage much larger proportionate variations in revenue than any provincial government can. It can afford to budget its tax revenues for the period of the business cycle as a whole. In this way it can mitigate depressions and booms rather than aggravate them, as provincial governments would do if they were dependent on these highly variable tax sources.

All taxes affect the volume of spending, but income and corporation tax rates, and changes in these rates, also have a vital bearing upon the incentive to produce and to undertake capital expansion. It is therefore important that these taxes should be levied exclusively by the Dominion Government. It is the only government which, because it can budget for the whole business cycle is able to set rates in such a way as to contribute to a high and stable level of employment.

Exclusive jurisdiction over taxes on incomes, corporations and estates is also necessary in order to protect Canadian interests abroad. With divided authority it is difficult to conclude reciprocal agreements with other countries which will prevent double taxation of Canadian incomes and estates.

There is one exception to the proposed exclusive jurisdiction which the Dominion Government feels should be made. This is in the case of taxes on profits from mining and logging operations. Mining royalties, Crown dues and other similar provincial charges are closely bound up with each provincial government's management of and expenditure on its forest and mineral resources. These charges are recognized costs of operation and as such can be deducted from taxable income for Dominion tax purposes. In general, however, levies of the royalty type, being based on volume of operations or gross rather than net income, discriminate against the weakest firms and prevent full exploitation of the least profitable resources. In some cases, therefore, provincial governments have chosen to levy instead on the basis of a net profits

tax. Under the proposed agreement the Dominion Government would recognize such taxes as being the equivalent of royalties, etc., and as in the case of the wartime tax agreements, there would be no restriction upon the right of provincial governments so to tax profits from mining and logging operations. In addition, the Dominion Government would be willing to concede the provincial governments priority in this field, by treating such taxes as a cost for Dominion tax purposes, on a par with levies of the royalty type.

Proposed Payments to Provincial Governments

Although provincial budgets will receive substantial benefits from implementation of the Dominion's proposals in regard to unemployment assistance and old age pensions, and from its full employment program generally, the provincial governments clearly cannot cease to levy succession duties and continue to forego income and corporation taxes after the war unless assured of an adequate alternative revenue source. The Dominion Government therefore proposes, in lieu of present statutory subsidies and payments under the wartime tax agreements, and conditional upon provincial acceptance of its tax proposals, to pay each provincial government the sum of \$12 per capita annually, increased or decreased in proportion to the value of Gross National Production per capita as compared with that of 1941. This proposed annual payment would however be subject to an irreducible minimum equal to \$12 per capita of 1941 population.

The application of the proposal is illustrated below.

PROPOSED PAYMENTS TO PROVINCIAL GOVERNMENTS
(Millions of Dollars)

	Irreducible Minimum Payments (Based on 1941 Gross National Production of approx- imately \$8 billion or \$700 per capita)	What Payments Would Have Been in 1944 (Assuming Gross National Production of approx- imately \$12 billion or \$1,000 per capita)	What Payments Would be in 1948 if Gross National Production were:—	
			\$12½ billion or approx- imately \$1,000 per capita	\$10 billion or approx- imately \$800 per capita
	(1)	(2)	(3)	(4)
Prince Edward Island.....	1.14	1.57	1.65	1.32
Nova Scotia.....	6.9	10.6	11.0	8.8
New Brunswick.....	5.5	8.0	8.5	6.8
Quebec.....	40.0	60.5	63.9	51.1
Ontario.....	45.5	68.6	70.3	56.3
Manitoba.....	8.8	12.7	13.2	10.6
Saskatchewan.....	10.8	14.6	15.5	12.4
Alberta.....	9.6	14.1	14.9	11.9
British Columbia.....	9.8	16.1	16.4	13.1
Total.....	138.0	206.8	215.4	172.3

¹Total population in 1941 was 11,490,000.

²Total population in 1944 was 11,958,000.

³Total population in 1948 is estimated at 12,406,000.

The table shows that the irreducible minimum of payments would amount to \$138 million per year, as compared with the present high level of receipts from the Dominion Government and from succession duties of \$125 million. But this

is the irreducible minimum only. If the proposed agreement had been in operation in 1944, with increased population and national production per capita, the provincial governments would have received \$207 million from the Dominion. If production per capita in 1948 is the same as in 1944, the provincial governments would receive \$215 million in that year. If per capita production were \$800 instead of \$1,000, the provincial governments would receive \$172 million. If 1948 were a very poor year the provincial governments would be assured, no matter how bad conditions were, of a guaranteed minimum of \$138 million from the Dominion.

The Resulting Position

These financial proposals, taken in conjunction with the other proposals which have been made by the Dominion Government, meet the objectives which we have set forth.

Exclusive access (except for taxes on logging and mining profits) to the fields of personal income and corporation taxes and succession duties would give to the Dominion Government the power and the responsibility to impose and administer these taxes in such ways and at such levels as would be most conducive to enterprise and employment. Competitive occupation of these fields cannot but result in restrictive, inefficient and double taxation.

Exclusive use of these taxes, in conjunction with the proposed unconditional payments to the provincial governments and the other proposals in this brief, would impose on the Dominion the major responsibility for deficit financing when in the interests of employment it is necessary to incur deficits.

These financial proposals would guarantee all provincial governments sufficient revenue to discharge their basic constitutional responsibilities. Implementation would not enable all provinces to bring their services up to the standard of the two or three highest. Provincial tax sources will continue to be less productive in some provinces than in others. However, a substantial part of each provincial government's revenue would, under the proposed agreement, be set on a simple and fair per capita basis. This would ensure an adequate minimum of services in every province and would make it possible to avoid abnormally high taxes in any.

The full implementation of these proposals would improve the financial position of provincial governments in five ways:

- (1) The Dominion's assumption of responsibility for unemployment assistance would relieve provincial and municipal governments of a potential burden which in the past has constituted the most important single threat to real provincial autonomy. It has been a burden which grew in weight as provincial ability to carry it declined. In the past it has necessitated harsh reductions in essential services, harsh tax increases, and in the majority of cases also dependence on special grants or loans from the Dominion. The employment and national development and welfare policies which the Dominion proposes to adopt are designed to prevent recurrence of the kind of situation which existed in the thirties. However, external depressions may develop whose effect upon Canadian employment and income cannot be entirely offset by domestic policies. No matter how unfavourable conditions abroad might become, under the Dominion's proposals the provincial governments would still be protected from the relief burden which has threatened their solvency and autonomy in the past.
- (2) The Dominion's assumption of complete responsibility for old age pensions from age 70 would relieve the provincial governments of an expenditure which has been growing and which will continue to increase rapidly in the future as the proportion of old people in the population

rises. On the other hand, provinces which wish to extend assistance to people between 65 and 70 who need it would be able to do so in co-operation with the Dominion without increasing their present old age expenditure.

- (3) The Dominion's proposal with respect to the taxation of mining and logging profits would give priority to provincial governments in this important revenue field.
- (4) The proposed financial transfers to the provincial governments would set a high absolute floor under a substantial part of each provincial government's revenue. They would also guarantee expansion of this substantial revenue item in proportion to the increase in each province's population and the increase in the value of per capita national production from the 1941 level.
- (5) Dominion policies for high and stable employment and national development and welfare would increase and stabilize incomes in each province and consequently provincial government revenue from sources other than the guaranteed financial transfers.

The net result of all these assisting factors would be to assure each provincial government of a surplus, in some cases a large surplus on current account under average post-war conditions. Under prosperous conditions the surpluses would become very substantial indeed and would make it possible to pay off debt on a large scale. On the other hand, the provincial governments would be protected against any major deterioration when business was below normal.

The provincial governments for which large surpluses are indicated even under average conditions are those in which present provincial (together with municipal) taxes are abnormally high, or in which the present standard of provincial (together with municipal) services is abnormally low. Such provinces would have the choice of

- (a) raising their standards of education and other provincial services,
- (b) lowering their tax rates,
- (c) retaining present tax rates in lieu of contributions required to finance the provincial share of such health insurance benefits as they might wish to undertake in co-operation with the Dominion.

To sum up, it is the belief of the Dominion Government that the proposed financial arrangements, in conjunction with the other measures recommended, would strengthen the federal system under which all ten governments here represented function. They would give to each government an assured basis of financial responsibility and freedom of decision in the matters entrusted to it by the constitution.

CONCLUSION

In April of this year, the Minister of Reconstruction, on behalf of the Government, laid before Parliament a White Paper on Employment and Income. In that paper the Government stated its adoption of the maintenance of a high level of employment and income as a primary object of policy. Certain reconstruction measures which had already been put into effect and policies which would be put into effect for Stage 2 of the war were set out concretely. Other policies for the post-war period, particularly in the fields of public investment and social security, were sketched in broad outline only. To the full implementation of these, mutually satisfactory financial and administrative arrangements with the provinces were stated to be a necessary prelude.

In this submission to the Conference the Dominion Government has stated concretely what these policies for the post-war period are and the financial

and administrative arrangements with the provinces which it would consider to be satisfactory. What has been set out in this brief is a second and important part of the Dominion Government's reconstruction program.

Specific proposals may be modified in the light of the discussions which take place, or may have to be modified if agreement on other proposals proves to be impossible.

Broadly what is proposed is that the Dominion Government should take the initiative in the maintenance of employment and income, (1) by achieving the best possible agreements with other United Nations in the field of economic relations, agreements which would encourage and permit the expansion of world trade and full use of our resources; (2) by pursuing fiscal and other policies which will create "favourable conditions within which the initiative, experience and resourcefulness of private business can contribute to the expansion of business and employment"; (3) by so managing its public investment expenditures and making it financially advantageous to provincial and municipal governments so to manage theirs, that they will contribute to the stability and not to the instability of employment; further, to direct those expenditures particularly to the development and conservation of our natural resources, improving thereby the opportunities of the Canadian people and the financial position of the provincial governments who administer them; (4) by maintaining and stabilizing by a comprehensive system of social security, incomes which are largely spent on consumption and by contributing thereby to the health, welfare and productive capacity of the Canadian people and to their employment.

To do these things fully and without destroying the federal system, the Dominion Government considers that it should have full and exclusive freedom to tax personal and corporate income and estates so that the restrictive effects of double and competitive taxation may be avoided and so that income earned and wealth accumulated nationally can be fully and efficiently taxed for national purposes and the mutual advantage of all provinces.

This program the Dominion Government conceives to be a truly national policy compatible with and conducive to the full and healthy development of a federal state. Within it the Dominion Government can exercise its constitutional powers more fully and effectively for the national welfare. Within it provincial governments can exercise their constitutional powers more fully and more independently than under pre-war arrangements. These proposals are neither revolutionary nor disruptive; they are built on our best judgment to-day of the experience of the past, but they involve no irrevocable commitments for the future; they ask only for a genuine trial. They are directed to the practical solution of national and federal problems which are the vital concern of all.

The Dominion Government asks careful and mature consideration of these proposals, which it is anxious to discuss fully and freely with the provincial governments. It asks that they be considered in the light of the responsibilities which each Government has to the people. Let no other advantage be considered than the advantage of the people of Canada.

RECEPTION TO GENERAL CRERAR

Rt. Hon. W. L. MACKENZIE KING: This concludes the presentation to the Conference of the proposals of the Dominion Government.

The train which is bringing General Crerar to the capital will arrive at eleven o'clock this morning. It has been understood that the Conference would adjourn to permit members being present at the station when the train arrives.

This afternoon we shall resume at three o'clock, at which time proposals of the Provincial Governments will be presented to the Conference.

I might say, with respect to the arrangements for the reception on Parliament Hill, that seats have been provided for Provincial Premiers and members of the Federal Government. As there have been no special arrangements made as to taking members to the station, it is a very short distance, but owing to the large crowds that may be assembled on the streets, arrangements have been made for bringing the Premiers back by car so that they may be in their seats on Parliament Hill before General Crerar arrives. There is to be a short procession from the station by way of the national war memorial. It will not take very long, and the arrangements that have been made will enable everyone to be seated at the time the General arrives.

I now adjourn the Conference to three o'clock this afternoon.

At 10.40 a.m. the Conference adjourned.

The Conference resumed at three o'clock.

Mr. MACKENZIE KING: Gentlemen, this morning we concluded the statement of the Proposals of the Government of Canada and it was understood that this afternoon the Conference would hear the proposals of the Premiers of the several provinces, any who desire to make proposals to the Conference, and I would now ask the Premier of Ontario, Mr. Drew, if he would wish to speak.

ONTARIO GOVERNMENT PRESENTATION

Hon. GEORGE DREW (*Premier of Ontario*): It will be recalled that when I spoke yesterday I advanced reasons why I thought it would be desirable to follow the established practice of meeting, hearing the welcome of the Prime Minister of Canada, responding to his greetings, and then having the Conference determine its own course and decide upon its own basis of organization; and that it would be wise to defer public discussion of any proposals until the Conference had constituted itself as a Conference, had decided its own course and had determined amongst other things whether the discussions should be in public or in private.

My remarks were directed to an established precedent. I may say that no letter which has been read here either from myself or from anyone else indicated any acquiescence in any change from the ordinary practice that the Conference itself decides the form it will take and decides amongst other things whether the discussions will or will not be in public. I indicated in the course of my remarks yesterday that I was not advancing any argument whether they should or should not be in public but I did draw the attention of the delegates to the simple historical fact that of the eleven Conferences before this which have taken place since Confederation, and of the several which preceded Confederation and resulted in the forming of the Dominion of Canada, the only one which had been a public Conference all the way through was the last one, which was a complete failure. I said at the same time that while I did not necessarily associate those two facts I thought it might be worth while bearing them in mind.

I need not elaborate the very obvious reasons why, in a Conference between governments, certain advantages accrue from the discussion in private of conflicting points of view before they emerge into open debate, with the full implications of public debate and consequent discussion through the press and over the radio. If the arguments of the past that there should be Conferences in private, at least

in part, were sound, then they are infinitely more sound to-day because of the increase both in the speed and scope of communication which immediately places what is said before the public.

Without in any way sounding a critical note, I simply want to say that nothing that was said and no interpretation that can be placed upon any letter of mine, conveyed the impression that there was acquiescence in any other course than that this Conference, like any other, should decide when it met whether it was to be a closed Conference or an open Conference from the beginning or from some subsequent stage. There was no suggestion that the Conference should not in the ordinary way meet, appoint a chairman, determine its course and decide at what stage certain proposals would be placed before the gathering. I mention that merely to clarify the remarks that were made and reasons which prompted me to express the conviction yesterday that we should be ill advised to decide our general course before having any detailed proposals before us.

Now, however, we are confronted with the fact that the Dominion proposals have been published. We accept that situation and our only concern is to make sure that the course we follow from this point on is most likely to produce agreement instead of disagreement. I said yesterday, and I repeat it now, that it is not for us here to express the hope that this Conference will succeed—it must succeed. The one thing about which everyone of us here should be tremendously careful is that we do nothing which will prevent the success of this Conference.

We have before us the result of a great deal of work on the part of the secretariat which was appointed by the Dominion government to prepare these proposals, proposals which really mean a new conception of Confederation, even if they do not mean a re-writing of Confederation. I want to compliment, and I do it most sincerely, those who have produced in excellent form the result of more than a year's steady work on what they thought would be a basis for discussion at whatever time this Conference should meet.

Without making any comment upon any particular part of this vast compilation of ideas and records, I do want to say that it has been compiled and presented in a form that makes it particularly easy to analyse, no matter whether the ultimate analysis may be in agreement with the original presentation or not. Even in the reading it was a very pleasing presentation of a point of view which deserves the consideration of everyone who attends here. Our experts in the various departments have examined these proposals to the extent that has been possible within the very limited time we have had them at our disposal.

Perhaps the very wording of these proposals is so carefully phrased that the wide import of some of them was not fully appreciated when they were first presented. I think everyone here, when he examines these as a whole, will find that these proposals are so sweeping that we should be assisting the solution of our difficulties in no way at all, if we sought to reach any hasty conclusion upon any single proposal.

It is a complete picture of great magnitude and of profound importance for every Canadian. It cannot be dealt with piecemeal. Anyone who attempted to form an opinion about the ultimate effectiveness of any one of these proposals without rationalizing that particular proposal with all the rest might easily reach a very unsafe conclusion.

Now, my friend the Premier of Quebec—I may say that I have had the pleasure of meeting him for the first time at this Conference and that, Mr. Prime Minister, is one of the many pleasures that have already come from this Conference—has spoken about the fact that in these discussions we must recognize that each province has its own consideration and even with the utmost desire to achieve unity in our discussion here we have an obligation to be sure we do not disregard the welfare of that particular province for which as provincial Premiers we are primarily responsible.

He spoke also of the fact that we all have certain susceptibilities. I do not want to disregard any susceptibility when I do recall that in the consideration of the proposals we must remember—when I say “we” I mean those of us coming from the Province of Ontario—that we are responsible for the welfare of over four million people, which is now the population of this province. In the particular field of legislation and administration which is our constitutional concern we cannot ignore the fact that decisions made here will affect that large segment of the Canadian population. We must also recognize the simple statistical fact that those four million people do contribute approximately fifty per cent of all the moneys, whether federal or provincial, which will be paid for the ultimate carrying out of any conclusions we reach.

I do not mention this to emphasize the importance of the Province of Ontario in regard to these discussions; not for a moment! Only too willing am I to accept the proposition that the concern of everyone of us here—whether from British Columbia or Prince Edward Island or whether from the central provinces, the other maritime provinces or the prairies—the concern of each one of us is to find the highest possible standard of life for every Canadian, with due recognition, of course, of our trusteeship in our capacity as provincial representatives.

But there is this reality to be faced. Any sweeping change in the imposition of taxes, any sweeping change in the allocation of rights, any sweeping change in administrative responsibility, because of the very simple reasons founded on arithmetic which I have mentioned, do impose upon us a special obligation to be sure that we know what the consequence of these proposals will be before we indicate either acquiescence or opposition, even in the slightest degree.

We very gladly accept as a basis for discussion, study and of careful thought, these proposals now placed in printed form before us. There are subjects other than those specifically mentioned which we had thought might well be considered. However, the scope of the Dominion's proposals is so wide—may I say, Mr. Prime Minister, they are appropriately brought within the descriptive term of “Conference on Reconstruction”—that our own subjects may well stand aside as matters of detail to be incorporated in the full discussion of all proposals at a time when we meet to consider them at a later date.

If these printed proposals had been ready earlier—I have no reason to think or to know that they were—it would have been helpful to us if we had received them. As each one of the delegates knows, any one of these subjects involves tremendous study, based upon population, based upon the incidence of taxation, based upon the present constitutional allocation of administrative responsibility and all those other considerations which affect that sometimes uncertain boundary between dominion and provincial authority.

But now we have them and we accept them as a basis for discussion. We not only accept them, we welcome them. They are very far-reaching. It may be said that no attempt is made to vary the British North America Act, but even the most cursory examination of these proposals will reveal that a consequence of the acceptance of these proposals might be to vary our future administrative practice under the British North America Act to a very considerable degree indeed. In saying that I am not now suggesting that we are agreeing or disagreeing with any part of this voluminous presentation which is the result of the extended study which has taken place.

One of the functions of this Conference, and may I say that I believe it to be the function of any similar conference, is to decide the subjects to be discussed, the way in which we can best reach agreement and the way in which we can best bring such agreement to fulfilment.

I suggest on behalf of the Province of Ontario that we take these proposals as the basis for our discussion and our consideration, that all the provinces do that, and that we now proceed. When I say “now proceed” I must be careful

of the possible interpretation which might be put even upon a single governing word. When I say "now proceed" I mean from now on we proceed to study these in detail, and to find out what the consequences will be for each of the provinces. Then with that information we shall be able to exchange opinions intelligently, with a full knowledge of what the impact of any one of these proposals would be upon the welfare and economy of the area for which we are responsible, within our constitutional limitations.

I think also it would be well if each of the provinces were to be at liberty to add to the subjects for discussion beyond the rigid limitations of the proposals now before us.

I think there should be a continuous exchange of opinions, not only between the departmental ministers and officials concerned, but also as between provincial governments as well. For that purpose it is important that we set up effective channels of communication between the various governments, directly related to the activities of this Conference.

Then it might be wise also if at this time a tentative date were set to re-convene, based upon the anticipated time it will take to digest and appreciate fully the whole picture presented in these proposals.

I should think that the establishing of such a channel of communication, the fixing of such a tentative date and the decision as to the best method by which the provinces might propose additional subjects could be done by a steering committee of this Conference, to which reference has already been made. I do not want to labour the point because I discussed it yesterday, but it seems to me that if the suggestions I am now making are acceptable, then the very acceptance of my suggestions, in whole or in part, also suggests the desirability to some such organizations as I referred to, and which was also referred to yesterday by the Premier of British Columbia, namely a joint Dominion-Provincial planning board, or to use the alternative name that was suggested, and which I think I prefer, Dominion-Provincial Co-ordinating Council. I believe that such a body should exist for the purpose I have outlined.

I believe that we are immediately confronted with the desirability of establishing an effective functional relationship between the governments.

I have covered the points that I now wish to place before the Conference. I may say that we have here, our own experts from each of the departments affected. They have already given extended consideration to the proposals during the twenty-four hours which have elapsed since their presentation, but that consideration only serves to show the extent of the study which must be made to understand fully what the whole consequences of these proposals may be. If I may say so, I am inclined to doubt whether even those who have drafted some of the proposals fully appreciated all the consequences which flow from some of them. Please do not misunderstand me. I am not saying this in any critical sense whatever, but in the very nature of things, some of these proposals call for new administrative responsibilities and new allocations of administrative effort which in themselves may greatly change the actual cost of administration and may even change the anticipated requirements of public funds as estimated in the original proposals.

As I said yesterday the delegates from Ontario to this Conference regard it as so important that it must not fail. We have waited some time to come together. It would be better that we be sure of the foundation for our discussion than that we should seek to give the appearance of great speed and in doing so attempt to reach conclusions without complete consideration of every one of the separate proposals before us. I say that for this reason: the effect of these suggestions must be brought together as one composite picture. Anxious though we are to reach a satisfactory conclusion for the welfare of the provinces we represent and for the welfare of every part of Canada, we are unwilling, and unwilling for that very reason, to deal piece-meal with any of these proposals.

I therefore make the suggestion that we accept them as the basis for consideration and leave the door open to the addition of new subjects. I suggest that we establish a ready and effective means of communication between provinces for the exchange of information whether by such a council as I have proposed or not, and that we then proceed at this Conference to hand to the steering committee the responsibility for bringing these suggestions to a definite form.

QUEBEC GOVERNMENT PRESENTATION

Hon. MAURICE DUPLESSIS (*Premier of Quebec*): Mr. Prime Minister, Messrs. Premiers and delegates, I wish first to congratulate the Prime Minister on his election yesterday. After a strenuous fight he deserves congratulations. I just read in the newspapers that to-morrow is the 26th anniversary of his election as Leader of the Liberal Party. Twenty-six years is quite a span in a man's life; in a nation's life it is a very short period. We can also say that seventy-five years is far from being a long period in a nation's life. Accordingly those who contend that radical changes should be made in the B.N.A. Act of 1867 because it is seventy-five years old are forgetting that the Prime Minister is still hale and hearty after twenty-six years of political life.

I say to him, as I said before, that I come here as a Canadian and that I am putting aside any political considerations. My first thought is of the well-being of the country at large and the provinces in particular. I gladly wish him good health and success. Of course, as we are all human and are all striving for perfection I wish him also a big improvement.

We were invited to this most important Conference, and the Province of Quebec was glad to attend the Conference and is anxious to co-operate and collaborate according to the basic principles which I stated yesterday and which I need not repeat.

The Federal Government, yesterday, put before us some very important proposals. The reading was very interesting. I wondered whether the ministers were in a tournament to prove to the delegates who could read the best. Although the reading was perfect I need to read them myself again. I think that the Prime Minister of Ontario is absolutely right when he suggests that these proposals are so important and of such consequences that it would be most unwise to express right away a definite opinion on these proposals. The only and decisive opinion I can give to-day to reiterate the basic principles I mentioned yesterday.

We are members of a Confederation. Confederation presupposes collaboration and co-operation. Collaboration and co-operation are the very opposite of centralization or absorption. The spirit and the letter of the B.N.A. Act should form the corner-stone of any reconstruction or real improvement which can be desirable.

When I received the courteous letter which the Right Hon. the Prime Minister sent me some time ago I answered that the Province of Quebec would be glad to attend the Conference and that we would be willing, as we are to-day, to co-operate in bringing in just and constitutional measures susceptible of insuring prosperity to Canada in general and to the provinces in particular. This fundamental principle is our guiding star.

As the Conference was convened by the Federal authorities it was only proper for them to place before the delegates their own proposals. With all due respect to the opinion of others I do not think it is up to the provinces just now to make proposals or counter-proposals. We are here to study the matters which the Federal government has put before us. We have decided to study them thoroughly not in a narrow-minded way, not in a partisan way, but in a real Canadian way. We have decided to examine them according to the basic principles of Confederation. I believe that my stand on provincial rights is

known and has been known for very many years. I need not express in detail all the opinions I hold in connection with possible amendments or modifications relating to the Canadian Constitution.

Because I am in favour of provincial autonomy I think that if other provinces wish to submit memorandum it is up to them. So far as Quebec is concerned we do not see any benefit just now in bringing in counter-proposals before we had time to study, from every angle, the Proposals submitted to us by the Federal authorities. It goes without saying, and it seems plain common sense, that a question has first to be thoroughly studied before a proper answer can be given. We did not want and do not want to prejudice the deliberations. We are convinced that everyone here desires to help Canada and to respect the letter and the spirit of the Confederation pact.

The documents put before us by the Federal government are numerous and lengthy. I do not think that the subjects mentioned in the proposals represent all the questions that could be and should be discussed, but only represent a good part of them. I believe that the Federal government did the proper thing when they stated clearly that their proposals were not submitted in the form of "take them or leave them". It would not be proper to do that; and rightly so, the Federal government did not do it. Therefore the door is opened for the provinces to submit any proposal they wish and every claim they desire to make.

Amongst the proposals of the Federal government some seem to be good, and some others appear to be bad. We are of the opinion that the proposals should be carefully perused and thoroughly studied. We are of the opinion that the steering committee suggested by the Premier of Ontario should be formed immediately and a desirable number of committees should equally be formed. But not too many of them because spreading the work too much does not lead to active results.

A frank and complete exchange of views is one of the best ways, if not the best, to produce good understanding and real productive co-operation.

Let us try and find ways and means which, firmly established on the basic principles of Confederation, will make our systems of governments produce better and greater results and will give the provinces what they need and Ottawa what Ottawa needs. In this spirit, Mr. Prime Minister, the Province of Quebec is pleased and happy to co-operate.

NOVA SCOTIA GOVERNMENT PRESENTATION

Hon. A. S. MACMILLAN (*Premier of Nova Scotia*): Mr. Prime Minister and Gentlemen, I have not very much to add to what I said yesterday. I have no brief prepared, but I can say I could take the time of this Conference to read a brief I have here, but I am not going to do that.

Mr. HART: It got wet.

Mr. MACMILLAN: The Premier of British Columbia says it got wet, that is why I am not going to read it. That is not so; I had to use it for an umbrella over my bald head during a shower to-day. It consists of ninety pages, and I might very properly read it. There is a great deal in it. It is the so-called Dawson Report, which has cost the Province of Nova Scotia a good deal of money. I am told that a large number of the best economists in Canada worked on it, and I could take the time to read extensively from it. No doubt it would be interesting to a great many of those who are here. I was one of those who were anxious to have the Dominion ministers read what they had prepared and wished to present to this Conference. I know that that did not meet with the approval of some of the Premiers around this table, but I still think it was the proper thing to do. Fortunately, it suited me very well because I lost my glasses

a week or so ago and it is very difficult for me to read with this old cast-off pair. I noticed yesterday that those who were present while the Proposals of the Dominion government were being read followed the printed submission before them very closely and some of them made notes in the margin as the Proposals were being read. In that way they got a great deal more out of them and perhaps gave to them a great deal more attention than would have been the case if they had had to take the printed submission back home with them and find time to read it while following their everyday occupations. I am satisfied that the reading of the printed Proposals and the making of notes on the margin as they were being read will prove of great assistance. I still believe it was the proper course to follow. It was also a matter of courtesy to the ministers themselves that they should have the opportunity of presenting to the Conference the reports which they had so carefully prepared.

At the moment I must say that I have no brief. I am not very fond of making briefs. When I am in my office at home and somebody calls me up from some other part of the province and says, "We are coming in with a delegation to see you about a certain matter and we have a big brief prepared," I usually say to them "Just leave the big brief at home and have a small delegation, not a big delegation, but a small delegation of two or three people come in and sit around the table with me, and then perhaps we shall be able to come to some decision on the matter. But if you come in with a big long brief and I have to read it I will say to you 'Yes, I will read and study it'—for even Premiers have to stretch the truth a little bit sometimes—and in due course you will hear from me.'"

If that is the course they follow, of bringing in a long brief, that is usually the end of it. But when they sit around the table where I can get quickly to the meat of the matter and find out what they want, if it is a matter that I can decide without the necessity of consulting my colleagues, I make up my mind and can send them away happy. That is one of the tricks of political life. I do not know whether you have all learned it, but I have had long years in public life, and it is a great thing to send people away happy. Of course, we nearly always give them everything they want anyway.

As I said, I have no brief. I realize the great importance of this gathering of men who are in the public life of this country, and I came here, as did my colleagues, with the full intention of cooperating in every way possible with our sister provinces and with the Dominion government as well, so long as they are reasonable about everything and do not try to take too much away from that little province I happen to represent here to-day.

I want to say, as other speakers have said, that I listened with great care to the presentations that have already been made, but I am not in a position to-day to express even an opinion upon them. I find that a tremendous amount of information has been compiled in these printed documents, and I am sure that it will take me at least a month to study and digest everything contained in them. They contain a great deal of valuable information, and no matter whether this Conference is successful or not, I am sure from a perusal of these books that those concerned have compiled a lot of information that will be handed down and that is indeed worth-while for the money that has been expended for that particular purpose.

Yes, we came here, my colleagues and myself, as we did in 1941, prepared to co-operate and to deal with all the matters placed before the Conference. Unfortunately that Conference came to grief through no fault of my province of Nova Scotia. We were quite willing to go fully into all the matters that were to come before that Conference. While we did not agree to accept and would not accept all the proposals of the Sirois Report there were some things in it that we were prepared to accept, and if we had been able on that occasion, in 1941, to discuss the matters set forth in that report, perhaps the results would

have been different. If the Conference was ditched at that time, it was through no fault of the majority of the provinces represented there they were interested in going on with the Conference.

I am here with my colleagues to-day prepared to deal with the matters before us, so far as we can. I do not propose, and I am sure my colleagues do not propose, to put before the Conference any proposals at the present time. I want to be in the position when I go back home with my colleagues to give the proposals that have come before the Conference full consideration and perhaps then to consult with various bodies in the province of Nova Scotia that have a direct interest in these matters. Take, for example, the municipalities of our province. They, like the municipalities of all the other provinces have a very definite interest in any agreement reached between the Dominion government and the provinces. Our municipalities in Nova Scotia are in a difficult position to-day. The only revenue they have is the personal and property tax, and that has grown very largely in the last few years. We must always bear in mind that we must deal with the municipalities when we go back home.

Then we also have in our province a great body of organized labour, some very difficult to work with and some that work very nicely with us. We want to have a consultation with labour in our province before we settle such important matters as those coming before this Conference.

Then there are those who are interested in transportation. We want to consult them also, because they too are interested in anything that may result from this Conference. Nor can we leave our farm organizations out of the picture. We have very strong farmers' organizations in our province and surely they are directly interested in the matters coming before this Conference because, by and large, they are the people who pay the municipal taxes in our province. I want to consult them also.

Then there are our manufacturing interests. We want to have the opportunity of discussing matters with them.

And when all these bodies have been consulted I want to have the opportunity of sitting down around the council table with my colleagues to decide just what part of the Proposals that are being put before us are acceptable to us. We have to make a complete study of the whole situation. It is not as easy as it looks.

I do not wish to discuss anything in detail to-day. But to mention just one matter, subsidies, for instance. You may say that certain things are going to be done with respect to that matter, or with respect to old age pensions and various other social services. But I say that we need to make a very thorough study of how these things are going to be done. These are all matters that affect our province and will affect our economy for the future, and so I say without any hesitation that it will take us some considerable time before we shall be in a position to make a pronouncement on the subjects coming before us at this Conference.

I could go back over the years and discuss the financial position of our province. I have no notes here, but I might say that since 1941, when the last agreement was signed our expenditures down to the present have very greatly increased for a small province. They have increased by over \$4,000,000. It is true that on the other hand we have increased revenues but our increased revenues are abnormal and will fall away from us the very minute that the war ends. We shall then lose at least three or four million dollars of revenue. On the other hand, we have been obliged during the war period to build up our services, public health, education, and highways. We have increased our expenditures under these three headings alone something like \$2,500,000 or \$3,000,000 in the last few years. We cannot take a backward step so far as those services are concerned. So our revenues have to be built up. We must take into consideration what we are going to lose when the war is over, the abnormal revenues that we

have been receiving from certain sources, not mentioning them, of course. But we are going to lose those sources of revenue and so we must build up our revenues from some other sources.

Now what other sources have we? Assuming that the Proposals before us are made effective we shall have no field of revenue left open to us—not one—unless we resort to the sales tax. That is the only thing that will be left to us. Of course, some provinces are doing very well with the sales tax, but I am afraid that down in the old fashioned province of Nova Scotia we shall not be able to do that. Therefore we have no potential field of taxation left and we are going to require at least eight or nine million dollars more of revenue to carry on our services and to standardize them with similar services in some other provinces in Canada. We must have eight or nine million dollars more money for that purpose. That is one of the things we have to take into consideration.

Perhaps before sitting down I might read a short passage from the Dawson Report. Do not be alarmed. I am not going to read the whole report although it would be very instructive. This is what Doctor Dawson of the University of Toronto says—

Mr. DREW: You came to the right province to get a good man.

Mr. MACMILLAN: He was a former Nova Scotian, which takes a little of the taint off. This report was compiled by Doctor Dawson with the assistance of about four other economists and this is what he says—these are not my words:

The province, along with all the other provinces, has been manoeuvred by war exigencies into a position where it will be extremely difficult to resist future Dominion demands for extensions of power. The relinquishment of a large part of the provincial taxing power through the Dominion-Provincial Agreement of 1942 and the constitutionally valid but temporary wartime powers assumed by the Dominion have given the federal government a whip hand which it apparently does not intend to give up readily. Moreover, the current demand for full employment and the concentration of economic and financial authority which any such program entails add a most potent argument for a continuation of at least some of the existing financial conditions and centralized controls. It is, however, the Dominion's power to levy unlimited taxes in all fields that is the big club which can be held over provincial heads. If, for example, the Dominion should persist in imposing an initial 30 per cent income tax, should increase its existing rate of succession duties, and should retain a heavy corporation tax, it could render almost completely nugatory the provincial power to impose these direct taxes which are essential to solvency. For any provincial tax imposed in addition to these onerous Dominion levies would impose an intolerable burden on the taxpayers of the province. The province, in short, has lost its bargaining power. It might, it is true, have lost it without the war, but in ordinary times no Dominion government would have had the temerity to dictate the proposals contained in the Agreement of 1942 without giving more in return and without a long period of negotiation and bargaining. The early fears of the Nova Scotia government are likely to be realized, and the *fait accompli* will become a powerful force to uphold the perpetuation of the Agreement, or something like it. It may well be that the only defence the provinces will be able to invoke against an aggressive Dominion will be an appeal to their own people for political support. The knowledge that such an appeal is possible may conceivably moderate Dominion acquisitiveness and help to restore in part the equality and balance of the negotiating parties.

I am not going to read any more. This is the result of considerable work on the part of those economists, and that is what they say.

At the moment I am not going to criticize the proposals that have been brought down here. That is not my purpose. However, before this Conference is concluded we may have some suggestions to make, but at the present time I have none to make. I want to go back home and then at the proper time bring any suggestions that we may have to offer. I want to go home so that we will be able to study all the proposals and at the appointed time we can return and be in a position to say "yes" or "no" to everything that has been proposed.

NEW BRUNSWICK GOVERNMENT PRESENTATION

Hon. J. B. McNAIR (*Premier of New Brunswick*): Mr. Chairman and Provincial Delegates, I doubt if I can effectively add anything to what has been said already in respect to procedure. I am in accord with the suggestions that have been advanced by the Premier of Ontario. I supported him twice yesterday and I still am of the view that the procedure suggested by him is the correct course for us to follow.

This is the third Dominion-Provincial Conference that I have had the opportunity of attending during my brief political career. I recall very distinctly the first one in December, 1935. That was called by the Dominion, and quite properly so. I believe that at the time of calling that conference a suggested agenda was submitted to the different provinces.

As I recall that conference, we met here in plenary session. At that time general statements were made which statements consisted of more than mere formal greetings. Opportunity was given at that time to the spokesmen of the different governments to present their points of view. Then at an early stage the conference divided into sub-conferences which met in private session. When the work of those sub-conferences was concluded there was a winding-up plenary session when the proposals agreed upon during the sessions of the sub-conferences were presented to the full conference.

I have still a very vivid recollection of the conference which was called in January, 1941, and which blew up very quickly. At that time a different procedure was adopted. I am not questioning the propriety of that. That conference was called to consider the report of the Rowell-Sirois Commission.

I remember distinctly that the Dominion supported that report, the general outline of it, and called upon the provinces to express their attitude on it. We all know what happened. I think it was most unfortunate. My province did not approve of the report or it did not support it. We came here to discuss it because there were some features in the report that we did not think were sound from the provincial point of view. But we were prepared to confer.

I might observe that these new proposals represent such a different approach to some of the questions that perhaps our attitude toward some of the proposals in the other report was not altogether unsound. I recall another conference between the Dominion and the provinces in connection with labour matters. This conference was called two or three years ago by the Minister of Labour (Mr. Mitchell). I have a very pleasant recollection of what happened then. The governments of the provinces were of different political complexion, but we got together and I think we did a good job in devising labour legislation although I understand that it was not ultimately extended over the whole country.

The experience of these different conferences would indicate clearly what the procedure of this Conference should be from this stage on, or at least it indicates to my mind what the procedure should be. I gather that there is an impression abroad—whether it exists here or not I do not know, but it certainly

does outside—that we were supposed to bring in a mass of counter proposals. I want to say now that I am not in a position to bring in any counter proposals. We did not come here with any counter proposals.

We knew that the Dominion government had had its experts and the members of the government spend a lot of time in preparing proposals and suggestions which would be advanced for study. We came here to work on that basis. As the Premier of Ontario has said, I think they should form the basis of our discussion from this point onward.

I have not had a chance to study all of these matters. I have not even opened seven or eight of the books. They will all require a lot of study. As I said a moment ago, I notice that the proposals depart quite materially from the proposals in regard to financial arrangements between the Dominion and the provinces contained in the Rowell-Sirois Report.

As I say, I do not know what the procedure is going to be, but I feel that this is not the time to present counter proposals, and I certainly am not presenting any. I do not see how I could advance counter proposals when I do not understand the proposals themselves. My thought is that the steering committee should get down to work and we should proceed on the basis of committees or sub-conferences.

I believe that committees or sub-conferences should be set up and be assigned certain subject matters. There are a number of headings in the list of contents. There are twenty-two delegates from the Province of New Brunswick and I take it that they will have an opportunity to sit in on these committees. My ministers are all here with their experts. Then with the discussion that would take place and the knowledge that would be gained we would be in a position to give these matters further study when we go back home. I have no doubt that when that has occurred there will be suggestions coming from New Brunswick as to items that should be added.

I am strongly of the view that this work should be done in private session, and from my previous experience I assumed that that will be the procedure. I am sure that when we sit around the board together and discuss these things and advance our different points of view we will be able to agree on what we can agree on and agree on what we cannot agree on. I see no reason for any other course being followed. I know the public is very much interested in all that is taking place here, but frankly I do not think we are here to make day-to-day news; we are here to make history.

MANITOBA GOVERNMENT PRESENTATION

Hon. STUART S. GARSON (*Premier of Manitoba*): Mr. Chairman and fellow provincial Premiers and delegates, like the Premier of New Brunswick, I want to say that I am in agreement with the statesmanlike utterances made by the Premiers of Ontario and Quebec with regard to the necessity of a non-partisan approach to this problem of the value of discussing in committee the proposals which have been brought out at the plenary sessions of the Conference. However, I differ from them in one respect. I have not understood from the course of events during the past eight years that we were to come here merely to consider Dominion proposals. We understood, rightly or wrongly, that we were being invited to present proposals of our own. The proposals which I intend to make this afternoon are not in any sense counter-proposals. They are proposals that were prepared before we had any idea as to what the Dominion proposals were going to be.

We have been making proposals for eight years. As I said yesterday, it was the financial predicament of the Province of Manitoba which was the immediate occasion of the recommendation made by the Bank of Canada for the appointment of the Sirois Commission. Since that time, and indeed since before that time both in season and out of season, we have been trying to

develop in Canada public opinion which would make it possible for us to escape, and for every other province that was similarly situated to escape from the financial predicament in which the existing Dominion-Provincial relations left us.

Therefore, Mr. Prime Minister, on the basis of an inadequate consideration of your proposals and not undertaking to express agreement with them at this time, may I say that their presentation is tremendously gratifying to my province in the light of our position for the past eight years. During that time we have never been able to develop anything like the hope which these proposals now laid before us give us.

I hope that we are not peculiar in this respect, but we in Manitoba are of the opinion that in the sort of free society we have in Canada, under which a large part of the activities and employment is provided by the actions of individuals and corporations, it is of the highest importance that public opinion should be made acquainted with the policies of government. The public have an indispensable part to play in the working out of all government policy. We have seen instances on this continent where policies of the highest importance have been frustrated for no other reason than that the public did not know what they were or was not able to play its indispensable part when the time came for it to do so.

Therefore, I am inclined to disagree with some of the speakers that it is undesirable to have more than the plenary sessions of this Conference opened to the public. I cannot imagine a more suitable or a more appropriate forum in which public opinion could be developed concerning the policies of the federal government and the provincial governments with which individuals and corporations have to be geared, the activities of which we must depend for full employment in this country. Many of us will be dealing with the same subject matters. I have no doubt that will be true of Manitoba. Our submission was prepared without any knowledge of what the others were going to say. Unfortunately parts of that submission will not make sense except with their context and for this reason I shall present it in full even though it may duplicate some of the material which has been presented by previous speakers.

MANITOBA AGREES UPON PRIME IMPORTANCE OF FULL EMPLOYMENT

First, let me say that we in Manitoba entirely agree upon the emphasis which has been laid in the agenda upon full employment and a high national income. No other circumstance more favourably affects the operation of our treasury than this one. Eight years ago our treasury was in a desperate financial position. To-day, for the time being, we are in a comfortable one, largely because we now enjoy full employment and a high national income.

The inexorable fact is that Canada after the war must find employment for one million more people than were employed in 1939. At present levels of productive efficiency, of prices and working hours, the employment of 4,700,000 people, or about 1,000,000 more than before the war, will produce a national income of nearly nine billion dollars. If, on the same basis of productive efficiency, working hours and price level, we assume for the post-war a substantially lesser income than nine billion dollars after the war, we also have to assume a condition of mass unemployment.

Maintenance of High National Income Necessary to Stability

We have been told of the immense war-time advance in Canada's productive capacity. The high wartime income which this great increase in production has created is the income to which our present employment index, our present tax collections, the service of our national debt, and the present stability and

prosperity of our provincial and municipal treasuries, to say nothing of the federal treasury, are all geared. If, after the war, we let this huge income fall steeply, we shall have widespread repercussions and complications extending throughout our whole economy. For example, it will in such event be quite impossible to balance either the federal treasury budget or any of the provincial budgets. The maintenance of employment and of our present high national income therefore is of the very first importance to the solution of every problem with which this conference is faced, and as I shall endeavour to show, the converse is equally true. The solution of the problems with which we are dealing will have a great deal to do with whether we shall be able to maintain full employment and our present high national income.

To Maintain Full Employment We Must Maintain Approximately Present Levels of Spending for Consumption and Investment

To do this we must maintain our present levels of spending for consumption and investment, otherwise we shall not be able to absorb the volume of output which we are now producing for war and civilian needs. This is the crux of the whole matter, to replace the huge war-time market by an equally large peace-time market. That means that Canadians must not only be willing, but they must also be able to spend for consumption and investment an amount equal to our present national income. These statements may seem almost incomprehensible, but they are correct.

To do this we must double as compared with 1939 the value of our exports, of our public and private investment and of our civilian consumption and thereby create about one million more civilian jobs.

Each year we must spend for consumption or investment a total sum approximately equal to the existing national income, otherwise that income will decline.

It may be that in the transition period after the war the Canadian government, in order to maintain our export industries for the time being, may be forced in the national interest to give some exports away. In doing so the government at the taxpayers' expense will have to purchase these exports from those who produced them. We can also sell exports on credit. If, however, the credit is to be paid, Canadians eventually must spend their money on imports from the countries that are seeking Canadian dollars with which to buy Canadian exports or pay off Canadian credits. Ultimately we can only sell our wheat and other exports by consuming the imports, visible and invisible, for which our exports are exchanged.

Canadian Standard of Living Must be Raised Substantially

Such post-war peacetime spending on both consumption and investment accounts must greatly exceed any previous pre-war spending by the Canadian people. This in turn means that quite apart from any humanitarian, moral or social reasons we, out of stark economic necessity, must very substantially raise the standard of living of the Canadian people after the war. Because of the increased use of power machinery and of the advance in human skills, economists estimate that the growth in productivity in recent decades has been on the average about 3 per cent per annum. Since 1939 under the impetus of war needs, scientific and technical advance has made the growth in productivity more rapid than this 3 per cent. Since 1929 this improvement has never been translated into actual production and consumption for civilian use. So for over 15 years, in relation to civilian production and consumption possibilities, there has been developing an increase in man's capacity to produce which until now has been

obscured and unused. The result is that we have nearly a generation's progress in the standard of living to make up before we will be able after this war to reach and to maintain full employment.

This is a situation without precedent in history. There is no record of an increase in the human standard of living of anything approaching the one which we must make at the present time, if we are to avoid economic difficulty and worse.

It is to the realities of this situation that our political and economic ideas, amongst other things, of Dominion-Provincial relationships, must be adapted.

Increase in Standard of Living Must be of Wide Application

If we are to increase the Canadian standard of living to the point necessary to sustain a high level of employment, we "must have a very substantial increase in the standard of living of the masses of the people." These are not the words of an irresponsible person. They are the words of Mr. Beardsley Ruml, an eminent, highly-paid American big-business executive, as applied to the similar problem in the United States. He goes on to say this:

The overall increase required is too complicated to be accomplished by improvements for particular classifications of the people or by feeding purchasing power stimulant at the top and letting it trickle down. We can and should encourage private investment, and the flow of savings to investment, but without large increases in the purchasing power of the masses of the people, other methods will be insufficient to do the gigantic job which must be done.

The reasons for this are not only moral, political and social welfare reasons. They are, to use again a phrase of Mr. Ruml's, "the consequences of inexorable arithmetical necessity". It is an arithmetical necessity that the standard of living should be substantially increased because if the masses of the people do not, or cannot spend, to consume or invest, we shall not have full employment.

Palliatives in the Long Run will be Ineffective

It is true that the consequences of our failure to increase their standard of living can be obscured by other devices. We can be thrown back upon measures which at best have only a short term justification, for example, upon a large excess of exports over imports, or a large volume of tax-wasting public works, or disguised unemployment at subsistence occupations, etc. These devices are mere palliatives: and the fact of our having gone into war with its full employment directly from a depression with its mass unemployment has left an indelible impression upon the minds of our people which palliative will never erase. Free enterprise to survive has to defeat unemployment.

Nine Canadian governments have mandate to provide economic environment in which free enterprise can provide full employment

Nine governments in Canada have mandates to solve to-day's problem under the free enterprise system. We believe, therefore, that it is the duty of governments in Canada to co-operate in creating an environment in which free enterprise can provide full employment. Beyond that, it is up to free enterprise. If it does not succeed, state action necessarily follows for no government to-day can face the social and political consequences of mass unemployment, nor can it face the financial consequences.

To provide a proper environment for free enterprise we must take into account some of its fundamentals. The free enterpriser produces because he expects to make profits. People cannot buy his goods unless they have the

money or other purchasing power. Thus the free enterpriser cannot make profits unless he can find buyers with money. He has no incentive to produce to meet the needs of those who have no money. It is therefore purchasing power which sets production in motion in a free economy. The free enterpriser therefore in his own interests must favour increasing the purchasing power of the masses of the people.

The free enterprise system has now such a great productive capacity that unless it makes a generous provision for the underprivileged, this great capacity is in danger of becoming clogged with its own output. That is why free enterprise must be progressive in its attitude towards welfare measures and to improvements in the living standards of the people. These are of invaluable assistance in insuring that the huge productive capacity of the free enterprise system will be fully employed. Notwithstanding this great capacity our pre-war production was not enough to provide even a moderate average standard of living, and we had unemployment. One of the best ways of curing this unemployment is by getting purchasing power into the hands of those who have human needs to satisfy, and who are without the purchasing power with which to satisfy them.

In that connection, Mr. Prime Minister, our congratulations go entirely to the present Federal government in respect of its family allowances legislation.

Whether we recognize these truisms depends upon our understanding of the change in the whole character of our economic life, brought about by the immense improvement in our productive capacity which has taken place in the last 150 years and particularly in the last 35.

This improvement in our productive capacity has been due in large part to the vast development of power driven machinery. For example, our early parochial agricultural communities and markets have been transformed into a highly integrated and interdependent world-wide economy, with national and international markets and with wholly new and difficult tax and other problems.

Power-machinery mass production requires much specialization. This specialization requires larger markets. For example, an automobile producing community with a huge investment in plant manned by specialists, can on a mass production basis turn out excellent automobiles at relatively low prices, but only upon condition that it can exchange these in the market for a great variety of the other things which the members of that community require. When the exchange stops, adverse effects upon the community immediately ensue which are in proportion to the size of the investments, the complexity of the industry and the number of people employed.

*Cycle of employment in power-machinery mass production economy
depends on unrestricted exchange*

Thus in our machine age, the whole cycle of employment in power-machinery mass production depends upon the maintenance of exchange and the prevention of interruptions, restrictions and stoppages throughout the entire economy in which it operates. Modern machinery with all of the marketing, financial and other changes which it has brought about has made most of the civilized world inter-dependent. It has made relatively unrestricted exchange the absolute condition of maximum employment, maximum income and high standards of living. Surely in an economic sense we moderns are part one of the other.

If we permit this system to function it will provide us with abundance. But so complex are its operations that if we interfere with its functions, it produces for us depressions and difficulties far greater than were ever experienced by the primitive society of 1867 with its much lower standard of living. Thus in this modern age with its complex power-driven mass production process, characterized by specialization, and its stark dependence upon free exchange, the

inexcusable, unforgivable economic sin is the arbitrary restriction of trade. Everything that is done which tends to restrict the amount of trade sabotages the operation of the modern economic process.

The 1867 Dominion-Provincial financial set-up of the days of the sailing ship and hand scythe does not fill the requirements of the power-driven mass production economy of 1945. It restricts trade, and creates unemployment, bankrupts municipalities and imperils the solvency of provinces

Now in the light of the facts let us see how this Dominion-Provincial financial set-up which was conceived in the age of the sailing-ship and the hand scythe fills the requirements of the power-driven mass production age of 1945. We shall prove that it bankrupts municipalities, imperils the solvency of provinces, restricts trade and creates unemployment.

It was the failure of the war-stricken world of 1920 to accommodate itself to a new economic order, greatly different from that of 1914, which bedevilled international trade and world prosperity in the whole interval between the two wars. As one of the greatest trading countries in an inter-dependent world, Canada was most vulnerable to these world conditions. It was the sharp fall in her export prices which brought on Canada's segment of the world depression. The incidence of the depression, therefore, fell with particular severity upon the primary producers and the primary producing areas, such as Manitoba.

That Provinces and Municipalities should have Primary Responsibility for Unemployment Relief is Quintessence of Unreason

The Dominion-Provincial financial set-up of 1867 seriously aggravated the depression in Canada and retarded recovery. The manner in which it did so is an outstanding example of the harmful effects of this set-up upon the treasuries of all provinces and numerous municipalities.

According to official interpretation, the primary responsibility for unemployment relief under this set-up rests with the municipalities and the provinces. This meant that in the primary producing areas of Canada, and this is particularly true of the Prairies, at the very time when under the impact of world conditions the revenues of the provincial and municipal governments fell to their lowest level, they were called upon to make their largest expenditures for unemployment relief. The result was that both the municipalities and the provinces, in order to maintain their financial responsibility, had to increase their taxes at the very time when as much purchasing power as possible should have been left in the hands of their taxpayers in order to maximize spending and so reduce unemployment.

In the case of municipalities most of the increased taxation of course had to be imposed upon land. The increased land tax retarded recovery of the building trades. No one then could erect houses upon land so burdened, to lease, at even the smallest rate of profit, for a rent that tenants could afford to pay. In consequence, workmen in the building trade remained idle on relief supported in part by increased taxes upon real estate which still further lessened the possibility of the building program which would give them employment.

The credit of both municipalities and provinces was deeply injured. No investor in his right senses is going to buy the bonds of even a well-managed municipality, or province in a sound financial position, if he has to under-write in so doing the possibility of that municipality or province being ruined by a burden for which it has not, and was deliberately intended by the Fathers of Confederation not to have, the proper means to provide.

Provinces Modern Responsibilities were not in Contemplation of Fathers of Confederation

For in the deliberations leading up to Confederation, there is not a scrap of evidence which indicates that governmental action and governmental expenditures on a modern scale now necessary in the fields of unemployment relief, social services, old age pensions and public health were contemplated by the Fathers of Confederation at all, much less as the responsibility of the provinces.

Indeed as the late Honourable Norman Rogers aptly put it:—

A constitution is an instrument through which the community seeks to realize certain declared purposes. The institutions it creates and the powers given to those institutions are assimilated to the character of the purposes it is designed to serve. The British North America Act, 1867, was an expression of the political philosophy of laissez-faire. According to the current opinion of that day the less government interfered with private business the better it was for the welfare of the community. The scope of government was narrowed by this philosophy. The division of taxing powers between federal and provincial agencies shows the influence of the prevailing doctrine. The control of social services, the regulation of wages and hours of labour were not attributed to the federal authority for the simple reason that such subjects were thought to be beyond the domain of government and to fall within the range of private or collective enterprise and freedom of contract. The Fathers of Confederation are not to be blamed for their failure to assign these subjects specifically to the national authority. These men were neither prophets nor soothsayers, but practical statesmen whose political experience had been gained in the narrow field of colonial government. Their major fault lay in their very evident assumption that the contracted boundaries of government which had been defined within the philosophy of laissez-faire were fixed and unalterable. As a consequence of this fallacy they failed to provide within the constitution the means of its own amendment in future years.

Thus the total governmental powers divided between the Dominion and the provinces by the British North America Act were restricted in scope by the political philosophy of the times, a political philosophy very different indeed from that which now prevails in this country. It is perfectly clear that had the Fathers of Confederation been faced with the necessity of assigning to either the Dominion or the provinces the task of under-writing the consequences in Canada of a world collapse, they undoubtedly would have assigned them to the Federal Government. In discussing this financial set-up, the Honourable Mr. Galt, one of its chief architects, in a speech at Sherbrooke, Quebec, on November 23rd, 1864, is reported as follows:—

Now, one objection to Confederation was made on the ground of expense, and in order to meet this every effort had been made to reduce the costs of the local governments, so that the local machinery would be as little costly as possible for it would not do to affront the intelligence of the people and tell them we had devised an expensive kind of machinery to do a very insignificant amount of work.

So the local governments were given as revenues the returns from their natural resources, the Dominion per capita subsidy or grant and direct taxation only. With regard to this last-mentioned the Honourable Mr. Galt, in his same speech was reported thus:—

If they (that is the provincial governments) increase their expenses in proportion to the growth of the population, they would be obliged to

resort to direct taxation and he thought they might trust the people themselves to keep a sharp watch over the local governments lest they should resort to direct taxation. He thought no surer check could be put upon them than thus fixing the grants which they were respectively to receive.

The Fathers of Confederation, therefore, assigned to the provinces revenues which were considered sufficient to support "local machinery which should be as little costly as possible" in order to take care of the "insignificant amount of work" which the Fathers had assigned to the provinces. Such a frail revenue base cannot support the tremendous burdens which unemployment relief, social services, old age pensions and public health and education have become in modern times. The historical fact is that these modern governmental powers to deal with such subjects as unemployment relief were not considered at all by the Fathers of Confederation.

Over half a century later, when it first became necessary to provide unemployment relief, this subject was deemed to have been assigned to the provinces upon the wholly unwarranted assumption that it had been already disposed of by them under one or two of the legislative functions which the Fathers of Confederation did divide between the provinces and the Dominion. By such a process, a function of government which was not in existence at Confederation, and which clearly would never have been assigned to the province if it had been, emerges fantastically in the 1930's as the primary responsibility of the municipalities and the provinces. With what result? With the result that large numbers of municipalities, even in the wealthier provinces, were driven into default. One province was driven into default, at least three others, including Manitoba, to the verge of insolvency, only to be saved by:—

- (a) credits from the Dominion which the provinces could not have got elsewhere;
- (b) by federal supplementary revenue grants; and
- (c) by the appointment of the Sirois Commission.

Let us look for a moment at the cost of relief to the Manitoba treasury. In 1881 the Manitoba per capita costs of charities and public welfare were 11 cents. In 1936, including direct relief costs, they were \$6.78. During that same time the general expenses of government increased by 6 cents per capita from \$1.60 in 1881 to \$1.66 in 1936. The increase in the general expense of government was 6 cents per capita, that in the cost of public welfare, including relief, \$6.67 per capita. In other words, for every dollar increase in the general expense of government, there had been \$111 increase in public welfare and relief costs. In 1936 the per capita increase alone in public welfare and relief costs over 1881 was more than four times the entire per capita cost of all the law-making, policy-making and administrative machinery of democratic government in Manitoba. These figures indicate the fantastic unsoundness of imposing the cost of unemployment relief upon provinces and municipal revenue bases which were never intended to support them.

The provinces must face after the war very large normal increases in public health, public welfare and educational expenses. The majority of the provinces cannot support these normal increases upon the basis of revenues which were given to them by the Fathers of Confederation with which to do what was then considered a "very insignificant amount of work." Much less can they continue to remain liable for unemployment relief. These remarks were prepared, Mr. Prime Minister, before we came to Ottawa, and it is very gratifying to learn that the Federal government proposes to take over unemployment relief.

Democracy in a Federation Like Canada Should Provide Equal Treatment in Public Service and Taxation

Leaving aside the legalistic misinterpretation of the B.N.A. Act, which makes unemployment relief the primary responsibility of the municipalities and the provinces, what seems to be the justice of the case? The costs of relief are in large measure the result of world conditions, over which no government in Canada has a large measure of control. But to the extent that it is possible to reduce relief costs by governmental policies in Canada, it would seem that the Dominion government with its control over trade and commerce, money, banking and fiscal policy, is the only government in Canada which can do so in any substantial measure. We say, therefore, that it is an absurd anomaly that the provincial and municipal governments, which have virtually no control over any of the factors contributing to unemployment, should yet have the primary responsibility for unemployment relief.

That they have this responsibility on top of other responsibilities for costly social and educational costs which in themselves are very heavy to bear means that those provinces and municipalities which have the most relief to pay will have the least revenue with which to pay it. They will have to impose a high rate of taxation and cut their services, and in the end for all their efforts, face bankruptcy. Their high taxes will increase their producers' costs, and thereby aggravate the maladjustment between the costs of primary production for export in that province and the prices which can be obtained for such export. This is what we had in the depression in Manitoba—high rates of taxation—spending more on social services—and in the end, after all our efforts we face bankruptcy. Their high taxes and poor public services will retard business and discourage investment. Projects economically sound, mining claims that seem attractive, and which if developed would add to the national income, will be left undeveloped there because of their high rates of taxation. With their taxes above and their services below the average, the people in the province so affected will not get, under a democratic federal government, equal treatment with their fellow-Canadians in public service and taxation. Surely we must take the position that democracy in a federation like Canada should provide its citizens with equal treatment in public service and taxation that would be provided as a matter of course in a unitary or even in a totalitarian state. This is no sort of unemployment relief system for a great world-trading nation like Canada, made up of economic areas, each of which, but the exporting areas especially, must in the nature of things be exposed from time to time to seriously, and perhaps disastrously, adverse external influence.

The position into which Manitoba and similarly situated Provinces would be forced by a Failure to Adjust Dominion-Provincial Relations

Manitoba and the other less well-to-do provinces submitted to these poorer services and higher taxation in the 1930's. We in Manitoba did so because being honest men we wished to meet our obligations, and we felt that we could not justly ask to have remedied out of hand, a difficulty which at that time had not been adequately analyzed or brought to the attention of the Canadian people. But now we have brought this difficulty to the attention of the Canadian people. We have substantiated our case not only to the Bank of Canada but before the Sirois Commission, the findings of which have been approved in principle by the federal government, Mr. Prime Minister. There has now been plenty of time for a rational disposition of this difficulty. If such rational disposition is not made in due course the Manitoba people can only conclude that those who oppose it are determined as a matter of policy to leave Canadians in Manitoba in a permanently inferior position as regards their provincial social and educational services, and their provincial tax rates. Of course, if this were the case, these other

fellow-Canadians who believed in this policy, provided they could command a majority—and there seems little doubt that they could—would be quite within their political rights in a democracy on imposing these disabilities permanently upon us. We, as democrats, in the minority would have to submit to the majority. But no one could complain if within our constitutional rights we in the minority attempted to minimize our disabilities—and we are not without the means of doing so, Mr. Prime Minister. Last year three Manitoba government enterprises, commercial enterprises, earned net profits after the payment of all fixed charges of nearly \$6,000,000.00. A substantial part of that profit arose because under our constitution the provincial Crown does not have to pay taxes to the federal Crown. That same immunity is the basis of the substantial decrease in the power rates which the Quebec Hydro Commission was able to announce within a few weeks after taking over the Montreal Light, Heat and Power Company. This substantial decrease equals only a minor fraction, I understand, of the Federal taxes normally paid by the latter corporation. Thus if Manitoba is to be denied any adjustment in Dominion-Provincial relations which will assure us as Canadians of some measure of fiscal justice and equality, we shall be faced with a dilemma—a choice between, on the one hand, having our provincial post-war program aborted, our treasury placed in a precarious position, our province placed at a disadvantage in the matter of attracting business, investment and residents, and on the other of extending our successful tax-free ventures into other forms of business until by their profits, sufficient additional provincial revenues can be secured to provide us with provincial services paid for by a provincial tax burden, equal in each case to the provincial average.

Effect of Forcing some of the Provinces into Business Ventures

If some of the provinces of Canada were forced into business ventures to supplement their revenues, the federal government of Canada would lose its taxes upon the businesses so taken over. That loss would create for the federal government the problem of devising substitute taxes. A substantial part of the substitute taxes would come from the wealthier provinces. The net effect of the whole process of the less well-to-do provinces' ventures into profitable business, plus the imposition of substitute taxes by the Federal government, would be to supply the less well-to-do provinces indirectly with the wherewithal to discharge their responsibilities which Canada had previously failed to transfer in a direct, orderly and rational manner.

It is of course, quite clear that even the non-socialist governments of the central provinces themselves could venture into tax-free businesses. But as non-socialist governments they would be justified in doing so only to the extent necessary to obtain sufficient revenues to carry out the province's responsibilities on a basis of fiscal equality with the other provinces.

We say, Mr. Prime Minister, that it should not be necessary to force provincial governments into business. It should not be necessary to create resentment as between provinces, to have Canadians in one province feel that their residence in that province entitles them only to an order of Canadian citizenship inferior to that enjoyed by Canadians in other provinces. A very large part of the net profits of corporations in Manitoba is earned by corporations with their head offices in other provinces, or by corporations which, although incorporated and having their head offices in Manitoba, are almost wholly controlled and owned by shareholders living outside of this province. None of this wealth which is earned in Manitoba and which is taken out of Manitoba by these large corporations can, after it has been taken away, be reached by Manitoba taxation. The social costs of producing these profits are left behind, to be supported entirely by Manitoba residents. When Canadians in Manitoba or Saskatchewan or British Columbia or the Maritimes or any other province

understand that by reason of the present Dominion-Provincial financial set-up, the wealth which has been created in their own province and has accumulated elsewhere cannot be taxed elsewhere to defray in part the social costs of its original creation in their own province then they as a matter of prudence and fairness, to which no objection can be made, will be disposed to give their patronage to companies wholly owned in their province, and to buy products made in their own province by such companies. This will introduce a pernicious provincial protectionism in Canada, which as another form of restriction upon trade, is the precise economic sin which has the most serious effect upon the operation of our modern power-machinery economy. As we have seen, under this type of economy the whole world is inter-dependent. No country is more so than Canada which in proportion to her population is now perhaps the greatest trading nation in the world. The only possible national policy which can be of greatest service to all of the citizens of a country such as Canada is one which takes cognizance of the inter-dependence of all of its parts and renders equal justice to Canadians in whatever parts of Canada they may reside.

Effect of the Dominion-Provincial Set-up upon the Employment and Income of the Canadian People

I have been dealing with this matter from the standpoint of the provincial and municipal treasuries. I should like now to look at the effect of this Dominion-Provincial set-up upon the employment and the income of the Canadian people and in this connection to examine whether under this Dominion-Provincial set-up it is possible to have a sound fiscal policy in this country, including that most important part of a sound fiscal policy, a just tax structure.

Two Other Essentials of National Fiscal Policy

In using national fiscal policy to attain full employment, we must not overlook two other essentials of national fiscal policy. These are that we must obtain the money needs of governments in such a way:—

- (1) that we shall continue to have a reliable money system that will provide a stable medium of exchange and store of value; and
- (2) that the Canadian people will have a sound banking and credit mechanism.

Canadian Tax Bill Should be High Enough to Protect the Stability of our Currency and no Higher

The question that we have to answer then is this: "What fiscal, monetary and tax measures, consistent with maintaining a reliable money system and sound banking and credit mechanism will also provoke full employment under private enterprise?"

We say that to maintain full employment, avoid inflation and maintain a sound banking and credit system, the entire Canadian tax bill must be high enough to prevent inordinate budgetary deficits on the one hand, and low enough on the other hand to leave with the taxpayer sufficient purchasing power to maintain full employment. If unduly high rates were imposed upon the assumption of a low national income, then the money that would be left to the Canadian taxpayers after the payment of taxes would be unnecessarily reduced. Spending for consumption and investment would be proportionately reduced and employment also reduced.

If we set our tax rates too high, that alone may prevent us from reaching full employment. We should not permit an instrument like a tax system, which is under our control, to work against us in this regard.

*Greater Co-ordination of Taxes Necessary to Create Environment in which
Free Enterprise can Provide Full Employment*

Thus if we are to have that measure of control over the national tax bill that we should have, if we are to maximize our chances of having full employment in Canada, then we must achieve a far greater measure of co-ordination of federal, provincial and municipal taxes than we have ever had in the past.

At times in the past we have not done a particularly good job of creating an environment in which free enterprise could provide full employment in this country. In the creation of that environment, few national policies are more important than tax policies.

*Injurious Effect Upon Canadian Tax Structure of Present Division of Taxing
Powers Under B.N.A. Act*

Few policies are more in need of reform in Canada than taxation policies and few are more difficult to reform. One of the main reasons for this difficulty is the division of governmental responsibilities and taxing powers between the Dominion and the provinces made by the B.N.A. Act in 1867.

This act assigned to the provinces the local functions of government such as social services, roads, education, municipalities and the like. At that time these local functions could be discharged very cheaply. The provinces therefore were given the strictly limited powers of direct taxation. At that time direct taxation was not used at all. It was too unpopular. It could not be concealed in the cost of living. It was out in the open where it made the taxpayer conscious of its pressure upon him. The idea was that the provinces would have to do their inexpensive tasks in a thrifty manner or face the necessity of imposing unpopular direct taxation.

To the Dominion were given the expensive national responsibilities and to support them unlimited powers to support any kind of tax, direct or indirect.

Now notice the curious results. In law, provincial taxing powers were limited, Dominion taxing powers unlimited; but for a long time the Dominion in practice also limited its taxing powers to indirect taxation. It reasoned this way. "The provinces have only the one power of direct taxation. We must try to leave that power to them. Therefore, although we have the right to impose any kind of taxes, we will limit our taxation to indirect taxes, such as customs taxes, excise taxes, sales taxes and the like."

Thus it was not until 50 years after Confederation, and three years after the beginning of the first World War that the Dominion, under the pressure of war needs, first shared the provincial field of direct taxation with its war income tax measure of 1917. And in spite of the moderation of its federal war income tax levies, Sir Thomas White in introducing it in the House of Commons apologized for his action, saying:

The provinces and the municipalities are confined to direct taxation and I have not regarded as expedient, except in cases of manifest public necessity, such as I believe exist at the present time, that the Dominion should invade the field to which the provinces are solely confined for the raising of their revenues.

In this spirit, the income taxes which it then imposed were commenced and have continued from that time until the beginning of the present war on a basis so moderate, as not to embarrass the provinces in securing their own revenue needs from direct taxation.

Direct Taxation is the Precise Field from which in a Modern Federal State the Federal Government should get most of its Tax Revenues

Now the difficulty is that direct taxation to which the provinces are solely confined is the precise field from which under modern conditions in a federal state such as Canada, the federal government should derive most of its revenues. In the past because it got too little from direct taxes, the Dominion had to get far too much of its revenues from indirect taxes upon goods, services and transactions.

Direct and Indirect Taxes Contrasted

Of the two types of taxation direct taxes are those such as are levied directly on incomes or estates, and indirect taxes are those levied on goods or services or transactions. The income tax is the most obvious example of the first; customs duties and sales taxes illustrate the second. In seeking to increase the yield of taxes a Dominion Minister of Finance may impose fresh burdens through both channels. For example, he may increase both the income tax and the duty on woollen clothing in the same budget. Obviously the effect of these increases is quite different. The increase in income tax is paid by people who generally speaking can afford it. The increase in customs on woollen goods is paid by everyone who purchases woollen clothing regardless of whether he can afford to pay the tax or not. Direct taxes are imposed upon the basis of known ability to pay. It is therefore a progressive tax. Indirect taxes fall on the poor with greater severity than on the wealthy. The indirect tax, in the form of a customs duty or a sales tax paid on woollen cloth is proportionately more to the man whose income is small than to the man whose income is large. It is therefore a regressive tax. To put it more briefly, a regressive tax is one which takes a larger percentage of a low income than of a high one, whereas a progressive tax takes a larger percentage of a high income than of a low one.

The producer who pays an indirect tax in the first instance passes it on to the consumer if he can. If he succeeds it is added to the cost paid by the consumer, and is paid by him regardless of his ability to pay. Being a regressive tax upon the consumer which takes a larger percentage of a low income than of a high one, it tends in this way to reduce basic consumption, thereby to reduce employment.

If the producer cannot pass on to the consumer the indirect tax which he has paid in the first instance he has to absorb it himself, regardless of whether he is making a profit. In this event the indirect tax increases his cost of production and of doing business, unless he can shift it to the factors of production such as wages, in which case it is regressive action.

Direct taxes, on the other hand, being those which fall upon profits and upon incomes on a graduated basis according to ability to pay, are not paid unless profits are first made and do not add to the producer's cost of doing business. Being imposed upon a graduated basis they reduce basic consumption of the whole body of consumers much less than the same amount of indirect taxes would do.

Tax Legislation should Leave Largest Amount of Purchasing Power with Taxpayers most Likely to Spend it

Now, since employment depends upon spending, taxation should be imposed in such a way as to leave the largest amount of buying power in a position where it is the most likely to be spent. What a wealthy man does not pay in taxes he may merely save and not spend either for investment or consumption. What a poor man does not pay in taxes, however, he is much more likely to spend. Hence an important and imperative rule for a tax policy for full employment is this:

Other things being equal we should attempt to get rid of all of the regressive features in our existing taxation, and at the same time to make our new tax legislation progressive in character. Only in this way can we likely leave the largest amount of purchasing power in the hands most likely to spend it, and thereby create the widest possible market for our productive powers and in so doing create employment.

Canadian Tax Structure during last Depression

In the light of this imperative rule for a tax policy leading to full employment let us look for a moment at the tax structure of Canada during our last depression. Let us consider it first of all as it stood in 1930. Taking into account then all taxes in Canada, federal, provincial and municipal, 35 per cent came from customs duties, excise taxes, amusement taxes, public domain and miscellaneous taxes. Slightly over 25 per cent came from corporation taxes, gas taxes and sales taxes. 33 per cent came from real estate,—and we wondered why building languished and why there was unemployment in the building and allied trades. What percentage do you suppose came from progressive taxes upon incomes and inheritances? Only 7 per cent. This 1930 tax structure was exceedingly ill-balanced. It was the type of tax structure that would create unemployment rather than relieve it. But during the depression when employment was very greatly needed, this structure was not corrected; it was aggravated. For almost three-fourths of the increase in federal taxes between 1930 and 1937 were produced by the sales tax. As a consequence recovery from the depression was retarded by business-destroying consumption taxes, by employment and investment-destroying real estate taxes, by economically harmful taxes upon corporations and businesses generally.

Mr. John Bracken Quoted as to Evils Resulting from an Undue Reliance upon Indirect Taxation

Why was this policy followed? The answer to this question has been given quite tersely by Mr. John Bracken, whom I am happy to see here to-day, in the brief which as the then Premier of Manitoba, he presented to the ill-fated conference of 1941. We would like to make his language a part of our case now because we feel that it is so well stated we could not hope to improve upon it. This is what Mr. Bracken had to say at that time:—

We suggest that as long as the provinces retain the field of direct taxation, our national tax structure will continue to present this irrational aspect.

Let me touch on this for just a moment. As long as the Dominion has to raise the bulk of its revenues by indirect taxes upon consumption which bear most heavily upon the low income groups, its taxes will continue to inflict the grave injustice which has been inflicted during the depression upon the poor, upon the consumer, and upon the farmer and other producers who are not protected by the tariff. The poorer a man, the larger his family, the less protected this market, the more heavily this tax structure bears upon him, regardless of the province in which he lives.

It does not help such a man that he lives in a wealthy province in which the income tax rates are low. Indeed, it is because the provinces have the right to impose income and inheritance taxes and because the Dominion respects that right by imposing as little income tax as possible and no inheritance tax, that such a poor man, or farmer, living in a wealthy province has to pay, indirectly though it be, so much sales taxes, customs taxes and other indirect taxes to the Dominion Government. To

such a man a low rate of income tax is of little significance, because the tax seldom reaches him; but the high indirect taxes imposed by the present taxation scheme do reach him. And yet there can be no relief under the present system for such a person by provincial measure, because the provinces do not control the taxes which are unduly burdening him.

Let us then, as provinces, clearly understand that until the Dominion is given the sole power to impose these direct and progressive taxes, under some such arrangement as that outlined in Plan 1 of the Sirois report, the Dominion cannot lighten the burden on people of low income without invading the provincial fields for alternative revenues as to the point of serious embarrassment to provincial finances.

I scarcely need say to an audience of this kind that heavy indirect taxes of this character increase the cost of living. The indirect taxes of the Dominion have been built into the cost of living in a manner which leaves the low income citizen, who is quite aware that he pays little or none of the direct taxes to which his better-off fellow citizens are subject, still confused as to why it is that his wages never seem to keep pace with his necessary expenditures. Why, therefore, one may ask, has the poor man, the unprotected producer and the consumer been so complacent in respect of the wholly unfair tax burden which he has had to bear during the depression? Mainly, I suggest, because this burden is now largely hidden in the costs of the things he buys, and is not, therefore, the subject of his critical examination as direct taxes are.

In some provinces where there are comparatively large numbers of wealthy people, provincial income taxes are relatively low. But in the provinces where there are not significant aggregations of wealthy people, the income tax rates tend to be high, yet nevertheless unproductive because there are so few to whom such rates apply.

Thus the wealthy people of certain wealthy provinces have a relative sanctuary from provincial taxation. Until the present war they paid a relatively low Dominion income tax. In order that they as federal and provincial taxpayers might have these advantages, the farmer, the worker and all other low income groups in every province paid a large part of the \$112 million in customs duties, \$52 million in excise duties, \$144 million in sales tax; and they helped also to pay approximately \$250 million in real property taxes.

As compared with all these regressive taxes upon consumption and taxes upon real estate, all of which bear with special severity upon the poor, how much was paid in the whole Dominion of Canada—municipally, provincially and federally—by the higher income groups for personal income taxes? Remember, I mentioned \$112 million in customs duties, \$52 million in excise duties, \$144 million in sales tax and \$250 million in real estate. I repeat the question: How much was paid by the higher income groups in personal income tax? Just \$64 million. And in succession duties, how much? Just \$35 million; \$560 million from regressive and real estate taxes, and only \$99 million from progressive taxes. (Mr. Bracken was speaking of the year 1937). And this is the type of obsolete fiscal system we shall leave on the Canadian people if we do not implement the report now before us or make some other change which will accomplish the same result.

The Canadian system of taxation would appear to have been based upon the biblical statement: "For he that hath, to him shall be given; and he that hath not, from him shall be taken away even that which he hath." . . .

This ill-balanced tax structure transfers income from relatively low income groups to relatively high income groups. The proceeds of these indirect taxes of the federal government go in large measure to pay the interest on the national debt—a debt held in many cases by people who have borne a relatively lower share of Dominion taxation because of the minor extent to which the Dominion government prior to the war depended for its revenue upon direct taxation.

Thus there is here a transfer of income from the relatively poor to the relatively rich. We can never build up a sound system of public finance in Canada by taxing the low income groups for the benefit of the high income groups. Yet that has been the result of the manner in which the revenues and functions of government have been divided between the Dominion and the provinces by the interpretations given in practice to the taxation sections of the Canadian constitution.

It is thus apparent that taxation levied according to ability to pay should furnish a larger proportion of the total revenues of all governments in Canada.

Changed Political Philosophy Since 1867

In the light of facts set in Mr. Bracken's statement, one wonders why it took so long for us to be conscious of such grave defects in our tax system. The answer is simple. The British North America Act was conceived in the political philosophy of laissez-faire, that the less the government did other than to govern in the narrowest sense, the better for the nation. The responsibilities of all governments in Canada were restricted by this philosophy. Consequently until some time after 1900, the governments of Canada collected and spent a relatively small part of the national income. Under such conditions any simple rule of thumb system of taxation created no serious injustice nor economic complications. But as time went on conditions changed. Our political ideas changed. Demands on governments grew in number, size and cost. To meet them governments had to collect in taxes an ever larger share of the national income. The more taxes the governments collected, the more skill they had to use in collecting them in such a way as to impose the least possible burden upon the national income.

It is estimated that after this Canadian governments will be spending at least 30 per cent of the national income. If they get this by unwise taxes the national income will be depressed, whereas by wise taxes and wise public expenditures such as I believe are intended by these proposals Canadian government can increase the national income. Suppose for example that the Canadian government got this 30 per cent of the national income after the war by a tax structure such as that of 1930, with only 7 per cent of the total taxes levied according to ability to pay, as compared with 35 per cent for customs duties, excise tax, etc., 25 per cent from corporation, gasoline and sales taxes, and 33 per cent from real estate. Would not our experience in respect of taxation be the same as it was then? Would not marginal firms be forced into bankruptcy? Would not potential investors be discouraged from investing in real estate or erecting buildings? Would not thereby capital, labour and resources be thrown out of employment and unemployment created?

Federal Government's Dilemma Under the Canadian Constitution

Some might say, "Of course we should reform this tax structure; we should have reformed it long ago." The difficulty is that under our constitution the provinces have duties to perform which cost little in 1867, but which cost a great deal now. To raise the money to discharge these duties they have only one source of tax revenue, direct taxation. In order to create a favourable

economic environment in Canada, the Dominion should get a far larger part of its revenue needs from this same field of direct taxation. But if it does so it dries up the province's only tax base. If on the other hand the Dominion government continues to get the bulk of its revenue needs from indirect taxes these indirect taxes will increase the cost of production and of doing business in Canada, and at the same time they will reduce basic consumption. As a result the national income will be depressed and unemployment created.

This thoroughly bad tax structure of the 1930's was due to the ignorance or perversity of treasury officials. It was not the result of error which a wise policy could change. Ever since the governments of Canada began to take a sufficiently large percentage of the national income to make tax policy a strong influence upon the Canadian economy, the Dominion Minister of Finance has been continuously on the horns of a dilemma. He has to choose between two bad alternatives. He is bound to do harm no matter which choice he makes. His choice is merely as to whom he will harm—the provincial treasuries on the one hand, or the Canadian people and Canadian business on the other. As Mr. Bracken has pointed out, as long as the provinces retain and use the field of direct taxation the Dominion Minister of Finance will remain on the horns of this dilemma.

Because of this tax problem and other factors at least equally important, Canada in 1937 had a crisis in public finance which resulted in the appointment of the Sirois Commission.

Dominion-Provincial Taxation Suspension Agreement

One of the recommendations of that commission was that the field of direct income and corporation taxation should be transferred to the Dominion government. At the conference of 1941 certain provinces refused to agree to any such course. Shortly afterwards the Dominion government found that Canada was going to be faced with extremely serious financial difficulties if this particular recommendation of the Sirois Commission were not put into effect. As a result the Dominion-Provincial Tax Suspension Agreements were entered into, under which, in consideration of substantial annual grants from the Dominion treasury, the Provinces surrendered to the Dominion for the duration of the war and one year thereafter, the exclusive right to impose taxes upon corporation and personal incomes.

It is because of this temporary implementation of one of the main Sirois recommendations, by means of this tax agreement, that Canadians now pay only one income tax in this country. It requires little imagination to conceive what sort of chaos we should have had if in addition to the present high Federal war income taxes, all of the Provinces were superimposing provincial incomes at widely varying levels during war time. We can imagine what would have happened in this country if the Dominion government had attempted to obtain its vast war revenue requirements from indirect regressive taxes, such as sales tax, custom duties, excise duties, etc. What would then have happened, for example, to our wage and price ceiling? As a matter of fact the implementation of this Sirois recommendation by means of the Dominion-Provincial tax suspension agreement is one of the cornerstones of Dominion war finance and of the fight against inflation.

When Agreement Expires, Provinces will get Back Direct Tax Field Already Occupied by High Dominion Tax Rates

These tax agreements are operating satisfactorily now; but thoughtful people are gravely concerned, and no group should be more concerned than those in attendance at this conference with the situation which will exist when these agreements expire. Consider the position of the provinces. When these agree-

ments run out, in the absence of other proposals such as those made by the Federal Government at this Conference, and ones which we hope to propose, the provinces will get back—what? At the price of losing their substantial Federal grants they will get back their constitutional right to impose provincial direct taxation. What good will this right be to the provinces if in order to replace the cash grant which they have lost, they have to re-impose their provincial rates of direct taxation on top of Federal direct taxes which are themselves at a high level? Federal direct taxes in the post-war will be at a much higher level than they were before the war. For how can the Dominion government possibly expect to get from harmful indirect regressive taxes the huge revenues it will need to pay for greatly increased social services such as family allowances and old age pensions, for the cost of demobilization and military pensions, for the carrying charges on a hugely increased national debt, for floor prices for agricultural products, and for the discharge of a substantial and continuing defence responsibility on land, on sea and in the air? If the Dominion gets the bulk of its large post-war revenue needs from indirect taxes we can expect from such a policy consequences in unemployment similar to those that we reaped in the 1930's. If on the other hand, the Dominion Government continues after the war to get a large percentage of its revenue needs from direct taxes, the provinces will have to re-impose their provincial income taxes on top of high Federal taxes at a time when Canadians are expecting tax reductions.

It is true that there is a clause in each Dominion-Provincial tax suspension agreement under which upon their expiration the Dominion undertakes to reduce its rates of taxes by such an amount as will enable the province again to use the income tax and corporation tax fields; but the tax agreement does not define the arithmetical extent of this reduction in the case of personal income taxes. In the case of corporations the agreement specifies that the Dominion undertakes to reduce its rate of tax on corporation incomes by at least ten per cent of such incomes. The Dominion can comply with this clause and still leave provinces like Manitoba, and five or six others with a major political problem upon their hands of re-imposing post-war provincial income and corporation taxes on top of high Federal income taxes.

Is this feasible? I doubt it. Yet upon the expiration of the tax agreements we shall have lost our annual grants from the Dominion and we shall face heavy new responsibilities for our share of the national post-war program and for increased social service and educational costs. If something is not done now, our position when the tax agreement expires will be worse than it was before we signed it.

And as the Premier of Ontario has so well said on two or three occasions, this Conference must succeed.

When we in Manitoba signed this agreement we foretold to the Dominion officials the unfavorable position in which its expiration would place us. Yet we had no choice. The agreement was an integral part of our country's war finance, into which we entered in the national interest, and from which, it is only fair to say, we in Manitoba temporarily have benefited in no small measure. But if this conference achieves no satisfactory results, our position will be that of having purchased the precarious prosperity which we are enjoying under the agreement at the cost of a serious financial difficulty when it expires.

The responsibilities of all governments in Canada will be greater after the war than they were at the time in 1937 when a national crisis in public finance occasioned the appointment of the Sirois Commission. We cannot temporize with this problem any longer. Upon its solution depends the financial stability of more than half of the provinces of Canada, the working-out by them of their share of the national post-war program, and the maintenance of post-war full employment. The solution of this problem will thus determine amongst other things whether many of our men and women in the services will have employment upon their return to civilian life.

*The Provinces' Dilemma: Should They Allow Income Tax Paid to the Dominion
As An Exemption From Taxable Income*

The impending expiration of this tax agreement confronts the provinces with some rather unpalatable decisions. In his budget speech of June, 1940, the Honourable Mr. Ralston, speaking with reference to his proposal to increase the rates of the Federal income tax, said:—

In establishing the new rates we have been limited by two insistent considerations. The second of these is that the Dominion is not the only authority levying steeply graduated rates on large incomes. Every province of Canada except Nova Scotia and New Brunswick now levies income taxes, and in certain cities taxpayers must pay municipal income taxes as well as provincial income taxes. Ontario, Manitoba and P.E.I. are the only provinces which allow as a deduction from income the tax paid to the Dominion. All these authorities tax at different rates. This means that unless we are prepared to be entirely arbitrary and unfair, and to set up schedules of rates which when added to the rates imposed by other taxing authorities would be nothing short of fantastic, the Dominion must, in fixing its schedule of rates, take cognizance of the highest schedule of rates effective in any province. This is but an instance of the chaotic situation in the fiscal system of Canada to which the Sirois Report has drawn attention, and which I regret to say appears to be getting worse rather than better.

This quotation can be aptly applied to the situation with which we in the provinces are now faced. After the war the chaotic situation will remain; but in the absence of some change in our Dominion-Provincial financial set-up, it will be the provinces and not the Dominion which will be in the position of embarrassment. After the war it will be the provinces and not the Dominion which will have to be prepared to be entirely arbitrary and unfair with its taxpayers by seeking to re-impose substantial rates of provincial taxation on top of high Federal rates of income taxation. It will be the provinces and not the Dominion which will be raising the composite rates to fantastic levels. It will be the provinces and not the Dominion which will not only have to take cognizance of the highest schedule of rates imposed in any province, but that will also have to take the responsibility for imposing these high rates.

Whole Canadian Tax Structure Must Be Co-ordinated

This is a grave responsibility. For it is not necessary for the provinces to impose these rates. The provinces can avoid having to impose them by no more elaborate a device than that of entering into a co-operative arrangement with the Dominion government to co-ordinate the whole tax structure of Canada. Such an action upon their part is to both the long-term and short-term advantage of all Canadians. It is definitely in the short-term interest of provincial governments, which will otherwise have to lift the composite income tax rates to extortionate levels.

In his statement at the conference of 1941, the Honourable Mr. Ilsley pointed out that:

The war has produced vast distortions in our economy, creating fortuitous gains in some areas or from some classes and fortuitous losses in other areas. Under the present confused tax system any reasonable degree of equity in taxing these fortuitous gains or alleviating these fortuitous losses is clearly impossible.

He pointed out that our present inequitable, cumbersome and wasteful tax system was one that could be borne in pre-war peace times, when total governmental expenditures took a quarter of the national income, but that the inequities and wastes and conflict became infinitely more intolerable during the war when war and other governmental expenditures took almost half of the national income. What he said with relation to the war situation will apply with equal force to the post-war situation.

We of the Manitoba government took the position at the 1941 conference that it was clear from the magnitude of the struggle in which we were then engaged that we must abandon all hope of financing the vast war expenditures by indirect regressive taxes upon the cost of production and upon the cost of doing business, and by taxes which fall with particular severity upon persons in poor and moderate circumstances. We said that if we were to have a sound program of wartime finance, the Federal government would have to greatly and continuously increase the progressive taxation under the heading of personal and corporation taxes and succession duties. This we said was true whether or not the Sirois Report, then under consideration, was implemented. Subsequent events have vindicated our statement. Canada's sound wartime program was not possible except by the provinces and the Dominion co-operatively reforming our wartime tax structure by means of tax agreements which among other things implemented temporarily by contract one of the main recommendations of the Sirois Report.

Adequate Post-War Program In Canada Impossible Without Sound Tax Structure. Vast Dominion Expenditures Cannot Be Financed From Indirect Taxes

Without these tax agreements our war effort would not have been possible. The necessities for a sound and just tax structure in Canada in the post-war are no less great than they are during the war. An adequate post-war program is impossible of performance unless we perpetuate in the post-war the soundest tax structure which Canada has ever enjoyed since Confederation. For Canada to finance its vast post-war expenditures from indirect regressive taxes which retard business, minimize consumption, bear with unusual severity upon the poor, and in these and other ways cause unemployment, is wholly unthinkable. This being so, the only alternative for the Dominion is to get a much larger percentage of a much larger budget than pre-war from direct taxes upon incomes and inheritances. The Dominion Government has not only a constitutional right but is under a compelling economic and moral duty to follow such a policy.

That brings me to the end of a section, Mr. Chairman.

Rt. Hon. W. L. MACKENZIE KING: I was going to ask the members of the Conference whether they would wish to sit this evening or whether they have engagements to prevent that. If it were generally agreed that the presentations of the provinces might continue to-night we would perhaps be in a position to have the steering committee appointed at an early time to-morrow.

Mr. DOUGLAS: Let us get on.

Rt. Hon. W. L. MACKENZIE KING: It appears that it meets with general agreement to sit this evening. The Conference now stands adjourned to eight o'clock.

Mr. DUPLESSIS: Mr. Chairman, if any provincial premier wishes to present a memorandum it is up to him, as I said before. This memorandum that is now

being presented is a long one. Why not file it? After all, this is an extraordinary way to proceed. I respect the opinion of everybody, but I speak my mind. I do not think it is fair to come back to-night only to hear the reading of a memorandum which can be filed. As I said before, I am willing to work sixteen or seventeen hours a day, but with all due respect to the opinion of everybody I do not think it is necessary for us to have memoranda read and especially to sit at night to listen to a lecture from a memorandum that can be produced. The Premier of Manitoba is a very clever man; he has copies. This cannot be decided right now. We have to form a steering committee and special committees and this material has to be submitted there. What are we doing? If you want to sit to-night why not appoint a steering committee? Personally, I am willing to listen to anybody who wishes to come to my room to talk when I have the time to give them.

Rt. Hon. W. L. MacKENZIE KING: Well, it just happens that the Dominion ministers have all read the proposals that they have in mind. We have had the pleasure of hearing you, Mr. Duplessis, and some of the other provincial premiers, but there still remain four whom we have not heard this afternoon, and I am sure that you feel as I do that they should all be treated alike.

Mr. DUPLESSIS: Certainly I am interested. I am not objecting to their speaking because I know they are brainy men. I know they are well posted, but I think it is unfair to give them the impression that they have to read. I do not want the public to get that impression.

Rt. Hon. W. L. MacKENZIE KING: Perhaps we might leave it to the gentlemen themselves. If they prefer to put in what they have in writing it will be accepted by the Conference in that way. Otherwise we prefer that they make the statements orally, and I hope that we will all be prepared to listen.

At six o'clock the Conference took recess.

EVENING SESSION

The Conference resumed at eight o'clock.

CORRECTION

Hon. MAURICE L. DUPLESSIS: Mr. Chairman, I wish to say a few words in French to draw the attention of the stenographers to a mistake that was made, making me appear to have said exactly the contrary of what I stated very plainly. (Mr. Duplessis continues in French.)

J'ai déclaré que nous considérons que l'Acte de l'Amerique Britannique du Nord est un contrat qui a été ratifié par le parlement de Westminster et qui a toujours gardé son caractère contractuel et qu'il ne peut être amendé que par le consentement des parties.

Le rapport des délibérations de la conférence à l'effet que c'est un contrat qui ne peut pas être amendé par les parties est certainement erroné et devrait être en conséquence rectifié.

MANITOBA GOVERNMENT PRESENTATION—*Continued*

Hon. STUART S. GARSON (*Premier of Manitoba*): Mr. Chairman, just before the dinner adjournment I was pointing out that for the Dominion to finance its vast post-war expenditures from indirect taxes which retard business, minimize consumption, bear with unusual severity upon the poor, and in these

and other ways cause unemployment, is wholly unthinkable. This being so, the only alternative for the Dominion is to get a much larger percentage of a much larger budget than pre-war from direct taxes upon incomes and inheritances. The Dominion government has not only a constitutional right but is under a compelling economic and moral duty to follow such a policy. -

DECISION TO BE FACED BY THE PROVINCES WHETHER TO RELINQUISH THEIR LEGAL RIGHTS OF TAXATION

This means that, no matter what stand they take at this conference, the provinces sooner or later must make a decision. They must decide whether they will exercise their legal rights to impose provincial direct taxes (and get less and less from them), or voluntarily relinquish these taxes for an adequate consideration, financial and otherwise. Similarly, the basic decision which the provinces faced at the 1941 conference was the decision which they had to make and did make less than four months later in the Dominion-Provincial taxation suspensions agreement.

The only practical question to-day is as to the adequacy of the consideration that the provinces will receive in return for the voluntary relinquishment of these taxes. If, insisting upon our rights under the British North America Act, they cling to taxes which the Dominion government under the same statute has an equal legal right to impose and an impelling moral and economic duty to use in order to meet its own heavy post-war responsibilities, provincial governments can only face in the short-run the unpleasant and unpopular task of imposing wholly unnecessary and onerous income taxes upon their own taxpayers, and in the long run they face the prospect of getting less and less return from these taxes.

A Sample of the Practical Difficulties which will Arise if the Provinces and the Dominion Share the Field of Direct Taxation in the Post-War Period

They face also certain practical administrative difficulties of which the following are samples. Before the Dominion government taxation agreement was entered into, only three of the provinces, Ontario, Prince Edward Island and Manitoba allowed as a deduction from income the tax paid to the Dominion government. The provinces which did not allow this deduction will have some difficulty in super-imposing their provincial rates of taxation on top of high Federal rates while at the same time refusing to allow these high Federal taxes as a deduction from income for purposes of provincial income tax. If they do allow it as a deduction they must, as it would seem then in order to obtain their necessary revenues, they must have higher rates than before the war, for these rates will apply only to the taxpayer's income after the substantially increased Dominion income tax shall have been first deducted.

Let us examine for a moment how the province of Manitoba after the war will get the same amount of income tax that it obtained before the war from a married man with 2 children with a taxable income of \$5,000 per annum. Before the war such a man paid to the Dominion government in income tax the sum of \$96.00. The Province of Manitoba allowed these taxes paid to the Dominion as a deduction from his income, and on the balance of his income obtained a tax of \$100.62. The Dominion government is now levying upon this man instead of \$96.00 the sum of \$1,062.00. It has agreed to reduce its taxes in order that the province may get into this field again. Supposing it reduces its taxes by the amount of the province's pre-war tax. The amount of its tax will then be \$961.38. Manitoba will have to allow this tax as a deduction from income, which in addition to the deduction of \$2,500 as a married man with 2 children, leaves a taxable income for Manitoba purposes of \$1,538.62 instead of the pre-war figure of \$2,404.00. Upon this income Manitoba will have to impose a rate

of 6.5% instead of the pre-war rate of 4.1%, in order to realize the same amount of money that it did before the war. After the war when people are expecting a reduction in taxation, the imposition by the province of a rate of income tax which is much higher than it was before the war will as has been pointed out before be a difficult political feat. This increased tax rate is the smaller part of the harmful effect which this policy will have on them. They will be indirectly injured much more by unseen losses of jobs they do not get and profits they do not make resulting from the fact that this policy forces Canada to face the greater problems of the post-war with a public financial system whose ineffectiveness to cope with the problems of the 1930's was conclusively demonstrated throughout ten years of depression.

To Discharge Their Share of Post-War Program Provinces Will Require Strong and Sound Credit

The position in which the expiration of these tax agreements will leave the less well-to-do provinces has an extremely important bearing upon another matter which goes to the root of Canada's ability to put into effect an adequate post-war program. This matter is the credit of the provinces, which will be put to a severe test in the post-war.

Unless after the war the Dominion government or the Bank of Canada will provide the capital requirements of the provinces their credit will have to be much stronger and sounder than heretofore. The high national income which we must maintain after the war has been estimated at \$9 billion per annum. Of this sum about 20 per cent—that being the usual rate of savings in Canada under conditions of reasonable prosperity—or \$1.8 billion per annum will be saved. If savings are not invested, income and employment will decline. If this 20 per cent be saved—and there is nothing in our past experience to indicate that it would not be—we could only continue to maintain full employment if our expenditures upon investment were equal to this \$1.8 billion per year. If expenditures on capital investment fall short of this sum, employment and income would decline in proportion, we must inevitably face mass unemployment.

This figure of \$1.8 billion per year is much bigger than we perhaps realize. For example, the rapid industrial expansion of wartime has not involved in any year more than \$1 billion for plant, equipment and housing. Moreover, the \$1.8 billion per year is very much larger than the annual investment that private enterprise in Canada is likely to make after the war. The *Financial Post* some months ago conducted a survey of about 60 per cent of the manufacturing industry, which indicated that their immediate post-war capital expenditures on fixed assets might average slightly more than \$100 million a year, or about 1/18th of the \$1.8 billion of estimated savings. Again \$1.8 billion is more than the value of all housing construction from 1918 to 1937. It is nearly half of the fixed capital investment in Canadian railways, and is more than the total pre-war investment in the electrical power industry. Even, therefore, making allowance for the maximum of private investment and also for the effect of such measures as children's allowances in increasing consumption in Canada, it is clear the governments of Canada will be forced, from time to time, to make quite substantial capital investments if mass unemployment is to be avoided.

Development of Natural Resources Should be one of Government's Main Fields of Investment

In what should governments invest? In fields now occupied by private investment? This, except as a step towards complete socialization, would avail nothing. Not only would the particular government investment merely replace private investment, but the lack of confidence arising from that particular government investment would likely cause private disinvestment in other fields.

The most appropriate field of public investment would be in the development and conservation of our natural resources. But these belong to the provinces, and their development and conservation come under provincial jurisdiction. Indeed, Mr. Cameron, the Chief Engineer of the Department of Public Works, the chairman of the sub-committee of the James' Advisory Committee on Reconstruction, states on page 77 of the minutes of proceedings and evidence of the Special House of Commons Committee on Reconstruction and Re-establishment that public works which are constitutionally the responsibility of the federal government are: public buildings (that is federal public buildings), harbour and river works for navigation including canals, government telegraph lines, Dominion parks, experimental agricultural farms and stations and forestry stations. Those which were under national agencies were indicated as: the government-owned railways, national harbours, the Canadian Broadcasting Corporation, Trans-Canada Airways.

If we are going to have a post-war program in this country that will remotely approach adequacy it cannot be confined to public projects relating to these subject matters listed by Mr. Cameron. It has to go beyond that, and when it goes beyond that, according to Mr. Cameron, with whom we agree, it becomes a provincial responsibility. In view of this fact, a prerequisite of the post-war program is to determine how those parts of the national plan which come under provincial jurisdiction are going to be financed. For, if the provinces are financially unable to carry them out, and the Dominion has no jurisdiction to do so, they will not be carried out at all. As a result the post-war program to that extent will fail of accomplishment. For example, we have already begun a \$25 million farm electrification program in Manitoba. Whether it can be completed and made self sustaining depends upon the rate of interest at which we can borrow, and this in turn depends upon the strength and soundness of our credit. Therefore, no credit, no farm electrification.

Obviously therefore, the provincial governments are going to require after the war a very strong and sound credit. Investors who lend money for long periods to provincial governments will wish to be certain that when these governments promise to repay it they are not only willing but also able to carry out their promise. This means that the investors will require the definite assurance not only that provincial revenue resources are now adequate to support provincial responsibilities but that they will continue to be adequate during the currency of their loan. It depends, Mr. Chairman, upon the decisions of this conference whether in the case of a number of Canadian provinces, it will be possible to give such an assurance. As the Premier of Ontario said, this Conference must succeed.

*The Dominion Government Can Count upon the Complete Co-operation of the
Manitoba Government in Assisting by Ancillary Legislation or
Otherwise to Enable the Dominion to Adequately
Control Marketing and Stabilize Farm Income*

One thing which would greatly strengthen the Manitoba treasury position and Manitoba's credit would be the stabilization of farm income in Manitoba.

Agriculture in Canada, and particularly in Western Canada, is a very different industry from the Canadian agriculture of 1867 when the Dominion of Canada was created. Then it was primitive, operated with the muscle-power of men and animals, but . . . self-subsistent, self-dependent. Europe could have disappeared from the face of the earth in those days without causing any insuperable difficulties for Canadian agriculture.

To-day, in the great wheat areas, the grain is sown by power machinery, is cut and threshed in one operation by power operated combines, and hauled to market immediately in motor trucks. This machinery makes it possible to

operate at less than one-fifth the cost in man-hours of agricultural labour that the hand methods of 1867 involved. But as we have noted it has transformed our early parochial agricultural communities into a great exporting industry which is vulnerable to all of the dislocations in distant lands in which its exportable surplus is sold, and subject to violent fluctuations in the prices of its products.

In the inter-dependent world economy in which our wheat for example seeks a market, few factors throughout the years have been more disturbing than these violent fluctuations in the prices of primary products and raw materials.

During the last twenty years the price of wheat and of jute has been halved three times within about twelve months, the price of cotton three times in periods of under eighteen months. . . . On one occasion the price of coffee was halved in eight months, on another the price of sugar trebled in four months. Between 1920 and 1933 the price of crude rubber fluctuated between four cents a pound and twenty-five times that amount and was on several occasions doubled or halved in the space of a few months.

These violent fluctuations meant that farmers in many areas were unable to purchase clothes or boots, were unable to send their children to school for lack of them, were unable to obtain food other than that produced on the farm; that debts were unpaid. (Quotation is from the report of the Delegation on Economic Depressions, published by the League of Nations in 1943 under the title "The Transition from War to Peace Economy.")

These violent fluctuations have had a most adverse effect at all times for the western Canadian farmer. In the 1930's they were disastrous. "It was the sharp fall in export prices which pushed Canada down the incline of the depression. The level of export values was directly the basis of the income of a large section of the economy: it determined the incentives for capital investment and the size of the market for the protected manufacturing industry. When these export values shrank, the repercussions were widespread." (Sirois Report, Volume I, page 44.)

The importance to our whole economy of maintaining the stability of farm income was demonstrated in a most convincing way during the depression, and has been officially recognized by the present Dominion government's policy to maintain floor prices for agricultural products during the transition period. Valuable and necessary as are floor prices, something more fundamental is also required for the maintenance of agricultural prosperity. Price is only one factor in determining agricultural income, which also depends, amongst other things, upon the farmer's volume of sales and the relationship between his prices and those which he pays for his own needs. We must strive for conditions which will make it unnecessary either to rely upon floor prices, or to resort to restrictions upon production. One of the Canadian agricultural industry's most fundamental requirements is tersely stated in the final act of the United Nations Conference on Food and Agriculture recently held at Hot Springs, Virginia, on page 13 of which declarations 3 and 4 appear as follows:—

3. There has never been enough food for the health of all people. This is justified neither by ignorance nor by the harshness of nature. Production of food must be greatly expanded; we now have knowledge of the means by which this can be done. It requires imagination and firm will on the part of each government and people to make use of that knowledge.

4. The first cause of hunger and malnutrition is poverty. It is useless to produce more food unless men and nations provide the markets to absorb it. There must be an expansion of the whole world economy

to provide purchasing power sufficient to maintain an adequate diet for all. With full employment in all countries, enlarged industrial production, the absence of exploitation, an increasing flow of trade within and between countries, an orderly management of domestic and international investment and currencies, and sustained internal and international economic equilibrium, the food which is produced can be made available to all people.

Conditions which will satisfy the declarations above quoted will tend to establish agricultural prosperity for Canada and to avoid any need for contracting the volume of agricultural production, provided—and this is important—provided these conditions have continuity.

The increasing of the flow of trade between nations and the orderly management of international investment and currencies requires Canada's collaboration with other nations. Another form of such collaboration is indicated by Declaration No. XXV of the Hot Springs conference. This declaration cautiously recites that international commodity arrangements may play a useful part in the mitigation of excessive price fluctuations. It notes that "further study is necessary to establish the precise forms which these arrangements should take and whether and to what extent regulation of production may be needed." It recommends among other things that "International organization should be created at an early date to study the feasibility and desirability of such arrangements with reference to individual commodities. . . ."

We endorse this carefully worded recommendation because in our view few things are more important to the farmer, whose crop rotation and other production plans extend over a period of years, than a reasonable measure of stability in the prices which he receives for his product. At the same time the caution which is so manifest from the language of the Declaration XXV which I have just quoted is well warranted. The world's experience in the International Wheat Agreement of 1933 was not a completely happy one in that the agreement failed to receive the full co-operation of all its participants. The greatest possible care therefore should be taken to make sure that any new agreement of this type should be enforceable and enforced against all signatories.

We mention these considerations for two reasons. First because they have a vital bearing upon farm income in Manitoba which is still the life blood of Manitoba business. Secondly, because we think the Dominion government needs assurance from the provinces of their willingness to co-operate in the solution of jurisdictional problems which the Dominion government encounters when dealing with international matters and marketing control.

Let me state Manitoba's position in this regard with complete candour. The period between the wars proved that international trade is impossible in a world dominated by the fear of war. Therefore since our interest in the restoration of trade is so great, there is no country in the world more vitally interested than Canada in building up an international organization which will make a secure international peace. If we are to play our proper part in the achievement of this new international order the provinces of Canada should co-operate to give the Dominion government the power to implement its treaties and international agreements, which it does not now possess.

Again since Canadian interests and particularly western Canadian interests lie overwhelmingly on the side of developing the largest possible volume of multilateral trade, we in Manitoba are directly concerned in all of the Dominion government's policies to this end. We should therefore be prepared to clothe the Dominion government, as far as it lies within our power to do so, with all of the powers that it must have to build up a large multilateral trade within the sort of economic environment which it will face after the war. The present indications are, for example, that it will be necessary in the post-war for the

Dominion government with jurisdiction to take these actions after its present conclusion of food contracts with the citizens or governments of foreign nations. To meet the necessities which such foreign contracts are likely to impose upon Canadian production, Dominion government assistance through cheap credits, price regulations and controls may be necessary. In the early stages government purchases from Canadian farmers of food products and the gift of some of these to foreign countries may also be necessary. At a later stage the Canadian government may be called upon to grant or guarantee credits in respect of Canadian exports, and to support domestic prices; which indeed during the period of transition the government is already pledged to do. In all of these actions the government of Canada will be a buffer between the Canadian farmer and a difficult world market.

The government of Manitoba will support the Dominion government in all of these actions which are so vital to Manitoba agriculture and Manitoba business. In particular it will do everything within its power to clothe the Dominion government with jurisdiction to take these actions after its present wartime jurisdiction to do so shall have expired.

If we are to have effective agricultural products marketing legislation it would appear that similar co-operation will have to be extended by other provinces. Reviewing the situation with regard to such legislation, the Sirois Commission in its report said:—

The present position of marketing legislation was, in our opinion, accurately summarized in one of the briefs presented to the Commission, when it said:—

It would appear, therefore, that the position after almost twenty years of legislation and referring the constitutionality of various acts of parliament and of the legislative assemblies to the courts, finds us exactly where we began, namely, no one knows how to draft workable legislation dealing with the regulation of grading, packing, storing and marketing of agricultural products, which will come squarely within the respective jurisdictions of the Dominion and the provinces without the exercise of almost incredible caution.

The Commission expressed the opinion that:—

The Commission expressed the opinion that the marketing of commodities entering largely into inter-provincial and foreign trade should be governed by Dominion legislation, which should be valid notwithstanding the fact that it may also regulate intra-provincial trade in these products.

As long as the Dominion government can exercise wartime powers there is no difficulty about these measures, but with the return of peacetime conditions, they can be carried out only by close co-operation between the Dominion and provincial governments. The Government of Canada can count upon the full co-operation of the government of Manitoba in this connection.

RELIEF DEBTS SHOULD BE CANCELLED

One of the recommendations of the Sirois Report was that the Dominion Government should assume the whole of the provincial debts. Manitoba does not under present conditions urge that this should be done, believing that the recommendations which are set out hereinafter, if carried out, will place Manitoba in the position in which it can handle its own debt. The bulk of Manitoba debt, with one particularly notable exception to which I shall allude shortly, is either self-sustaining or has been incurred for productive purposes such as roads. While our debt, like that of other provinces in Canada, is quite large, particularly on a per capita basis, as compared for example with some of

the states in the United States, it has presented a problem not so much because of its size as due to the fact that our revenues were wholly inadequate to meet the immense growth in our current responsibilities. If provision is not made for a growth in our revenues commensurate with the further growth which it would appear will take place in these current account expenditures for social welfare, health, relief and education, the taking over of our debt would not in the long pull solve our difficulties. The relative relief that this would provide for our budget as compared with our social service costs is indicated by the fact that the Dominion government is proposing to spend in Manitoba for children's allowances alone more than three times the amount of the present interest charges upon our public debt.

At the same time the taking over of our debt would undoubtedly ease our present position until growth in current expenditures overtook the savings in debt service charges. Therefore, if this conference decides upon reasonable terms that provincial debts should be assumed by the Dominion, we shall offer no objection.

There is, however, one part of our debt of which we shall insistently urge the cancellation. That is the portion owing by us to the Dominion government for relief advances made to meet our share, and in several cases to enable us to lend the municipalities their share of the cost of financing the direct relief of employables. We have already submitted the reasons why the provinces and municipalities should not have been called upon to pay any part of this relief burden. The municipalities and the provinces have incurred this wholly unproductive relief debt in the discharge of responsibility which should never have been imposed upon them in the first place. At the cost of excessive taxation and a severe curtailment of our services they paid every cent they could out of current revenues. The relief debt represents the substantial margin of the burden over and above these sacrifices. The amount the provinces owe to the Dominion is, therefore, an accurate measure of our complete inability, even at great sacrifice, to meet out of current revenue a large part of the cost of relief. We borrowed from the Dominion because we could not borrow from anyone else. We could not borrow from anyone else because the placing of this relief burden upon the narrow provincial tax bases had imperilled our credit. This relief burden was never properly ours. This being so, we urge most strongly that in connection with the assumption by the Dominion government of all responsibility for the provision of relief to employables, it should cancel all of the outstanding relief debts owing by the Manitoba government (amounting as of April 30, 1945, to \$23,485,420.15). We undertake in this event to cancel all indebtedness owing by Manitoba municipalities on relief account.

May I now refer to matters which we shall develop in greater detail in the committee stages of these proceedings? With a view to supplying this conference with an estimate of our future revenues and expenditures in the capital and current section of the Province of Manitoba accounts over the next five years, we have prepared national budgets for each of the ensuing fiscal years ending with that of 1950-51.

In my presentation to the House of Commons Special Committee on Reconstruction and Re-establishment in June, 1943, I cited some figures to show how the implementation of only three items of post-war planning, namely, the Dominion health insurance proposal, the social security proposals as outlined in the Marsh Report, and the educational reform suggested by the Canada and Newfoundland Education Association Report would throw the Manitoba Provincial budget seriously out of balance.

Since that time the various departments of government have made a careful estimate of the cost merely of picking up the backlog of suspended maintenance of capital assets which has accumulated during the war, and of providing merely essential improvements in government services. Without going into any details

of revenues and expenditures, I may say that the projection of them over the period of the next ensuing five fiscal years indicates that we shall go from a satisfactory surplus at the present time to a substantial deficit in 1950-51. This deficit will be occasioned by a projected heavy increase in debt charges. We have calculated these debt charges on a basis of a 15-year amortization at $3\frac{1}{2}$ per cent per annum interest rate, but even if the amortization period were lengthened and the interest rate reduced, the projected increase in debt charges would still be such as to forecast a large deficit in 1950-51, indicating that the cost of money will be an extremely important factor in our post-war budgeting. In order to indicate that our estimates of expenditures have not been made on any extravagant basis, I should like to refer to one of the most important items of them, namely, the estimates of the cost of our Manitoba Health Program, in order to show that the services which we propose have been carefully considered on a very economical basis.

Manitoba Health Plan Conceived on Realistic and Economical Basis

Our purposes in our Health Program are:—

- (1) To effectually prevent disease;
- (2) To make curative medical services, hospitalization, dental care and nursing services available to all residents of Manitoba.

We consider the most important service to be provided is the provision of a full time public health service for all Manitobans at a cost they can afford to pay. This will provide rural people with disease prevention and health promotion services equal to that now enjoyed by urban areas. This is not a difficult program to work out locally, provided sufficient federal and provincial funds are available to reduce to a reasonable level the share of the cost to be borne by the rural community.

The next step should be to make available to all the people in the community on a pre-payment plan* diagnostic facilities, such as X-ray and Laboratory Services. This will enable urban practitioners to use these facilities, without consideration of expense in cases of patients in very moderate circumstances; and will enable rural doctors to give their patients the benefit of the most modern diagnostic equipment. One of the most urgent needs of a rural medical care program is a supply of well-trained young doctors. The provision of diagnostic facilities will go a long way towards increasing that supply.

The third basic principle of any plan of Health Service is to provide for all the people a family doctor. Everyone agrees that the general practitioner, properly trained and supplied with proper facilities to practise, is the backbone of any worthwhile medical care program. This is one of the main benefits that has been suggested under the proposals for Health Insurance upon which the Committee on Social Security has reported to the Federal Government. We believe that the provision of a proper preventive medical service, of diagnostic facilities without cost to the individual, and of a general practitioner service, approximately 90 per cent of illness could be taken care of in the patient's own community.

If patients are to be treated in their own communities it naturally follows that adequate hospitalization must be provided in these communities. The fourth basic principle is therefore the provision of hospital facilities in rural areas.

In our plan three types of hospital are envisaged:

First: The small maternity hospital, or "doctor's workshop", containing from six to twelve beds depending upon the needs of a community, should be provided wherever there is a practising doctor. This hospital

*Prepaid out of taxation but free to the doctor and his patients.

would be the Health Centre in the district. The beds therein would be used primarily for maternity cases and serious medical cases which require hospitalization, but they would not be used for surgery excepting in the case of extreme emergency.

Second: The second type of hospital would be a rural district hospital—a properly constructed up-to-date institution capable of taking care of all ordinary types of surgery, as well as medical and obstetrical cases. It would provide adequate diagnostic facilities, such as properly equipped laboratory and X-ray plant of sufficient capacity to do all main types of X-ray work. These services would be operated by a staff especially trained for these purposes.

Third: The third type of hospital would be a central area hospital to which all extraordinary cases from the rural general hospitals could be sent for special diagnosis and treatment. These central hospitals would be staffed and equipped in such a manner as to take care of any type of surgery, medical or obstetrical cases, which might arise within their particular jurisdiction.

In respect of the first three basic services, i.e.,

1. Full-time Health Units.
2. Diagnostic Facilities, and
3. General Practitioner Service.

We believe that funds for providing these services should be obtained from three sources—federal, provincial and municipal.

The erection of new hospitals, or the remodelling of old hospitals, we think is primarily a local responsibility. We further believe that in order to assist local governments or community organizations to erect new hospitals or remodel old ones that some provision should be made for loans from federal funds at the lowest possible rates of interest.

Capital expenditures necessary for the provision of new rural hospitals and the remodelling of old ones, together with diagnostic equipment for the hospitals will amount to \$3,275,000. This is for Manitoba, exclusive of Greater Winnipeg and the Northern mining areas. For Greater Winnipeg it has been estimated by the hospital authorities capital expenditures would be \$4,000,000.

We are of the opinion that there should be Federal grants to assist in this program. The first and most important grants that should be made by the Federal Government are those having to do with Public Health and Preventive Medicine, and of these the most urgent is a grant to assist the provinces to establish throughout their rural areas proper preventive services.

CANADA SHOULD APPLY, NOT DEROGATE FROM, THE CANADIAN CONSTITUTION

Some are of the view that the only possible reform of the present Dominion-Provincial financial arrangement is by way of a departure from or an amendment to, the Canadian constitution. This, in our judgment, is quite wrong. What we need to do is not to depart from the constitution, but, on the contrary, to apply the language, the principles and the spirit of the constitution to the circumstances of 1945. These are quite different from the circumstances of 1867. It would be unnatural and amazing if they were not.

The Significant Features of the Dominion-Provincial Financial Set-up of 1867

Let us look for a moment at the arrangement made by the constitution between the Dominion and the provinces which we should seek to apply to modern facts. The Fathers of Confederation assigned to the Dominion all matters of national concern; and unlimited power to impose any kind of tax, direct or indirect. They assigned to the provinces all matters of provincial and local concern; and the limited field of direct taxation.

The significance of this division of taxing powers is not complete by the mere statement that the Dominion got unlimited powers and the provinces only limited powers. We must also remember that the only taxes which were imposed in those days were indirect taxes. The allocation of direct taxes to the provinces was the allocation of something which was not then in use, and did not come into use in Canada, except in the province of British Columbia, until decades after Confederation. The real significance of this allocation of tax powers was that in effect, Confederation transferred to the Dominion what until then had been the chief tax revenues of the provinces, namely, customs and excise, both indirect taxes. These taxes, which had been the chief revenues of the provinces, became after Confederation the chief revenues of the Dominion. It is important to consider the ideas behind the transferring from the provinces to the Dominion of the chief revenues which the state enjoyed at that time.

This transfer enabled the Dominion Government to do three things:—

First, to exercise that control over the economy of Canada which it is the proper function of a national government to exercise. If a national government is created for the purpose amongst other things of setting up a fiscal, commercial and economic entity to match the political entity of Canada, then obviously the main control over one of the most important instruments of fiscal policy, namely, taxation, and in particular control over customs and excise, should be left with the Federal body.

Second, to support its own admittedly more costly functions of government

Third, to equalize as between one province and another, the financial support enjoyed by the provinces. It was equalized by payments out of the Dominion treasury to the provinces, not in proportion to the collections by the Dominion Government of customs and excise taxes in the Federal offices in each province, nor upon the basis of the amounts that were formerly collected for customs and excise by these provinces before Confederation, but on a per capita basis. Regardless of customs and excise collections in Ontario as compared with New Brunswick, they were both to get from the Dominion treasury substantially equal per capita grants.

Provision of Provincial Revenues by Canadian Constitution Was Intended To Be Adequate for Provincial Responsibilities

These grants were intended to be adequate for provincial needs if those needs were met in an economical manner. This is an important point for us to keep in mind. On the basis of Manitoba's figures, (for example our ordinary costs of government increased by only 6c per capita, that is, from \$1.60 to \$1.66, between 1881 and 1936) one might hazard the conjecture that these provincial revenues would have been adequate had not the change in political and social philosophy in Canada imposed upon the state a wholly new order of responsibilities for social and educational services which had not been in contemplation at the time of Confederation and which was interpreted as being under the jurisdiction of the provincial government. When to these new responsibilities was added unemployment relief, the provincial governments' financial burdens became quite insupportable by the revenue resources with which the Fathers of Confederation had provided them for the purpose of doing "an insignificant amount of work." One measure of their inadequacy is the fact that the Dominion Government is proposing to spend on children's allowances in Manitoba over three times the total amount that we spent in the last full fiscal year before the war, upon health, education, public welfare and social services out of tax revenue produced by rates of provincial taxation that were among the highest in Canada. That is the measure of their inadequacy.

Dominion Per Capita Subsidy Wholly Inadequate

It has been notorious for decades that for the support of their burdens the per capita grants which the provinces received from the Dominion and which were intended to be adequate, are ridiculously inadequate. It is wholly in accord with the spirit, and the intent and the clear meaning of Confederation that the Dominion Government should increase its financial assistance to the point where it represents, as these per capita grants were intended to represent, a major source of the moneys which the provinces require to support their responsibilities.

In doing this we shall be taking the same position with regard to this modern problem of Dominion-Provincial financial relationships that the Fathers of Confederation took with regard to the financial problems that were solved by Confederation. We shall be proceeding entirely in accordance with the meaning and spirit of Confederation. Specifically, we can restore the autonomy which through the years the provinces have lost by:

- I. Assigning to the Dominion, as the Fathers of Confederation did, the financing and administration of matters which are national in character and in scope. In 1945 these are:
 - (1) Unemployment relief of employables;
 - (2) Pensions for the aged and the blind;
 - (3) All unconditional state money allowances, such as children's allowances, which do not involve local supervision, and which, as well as having a social welfare aspect, are involved in national fiscal policy in the sense of being important devices to stimulate consumption and thereby increase employment.
- II. By providing the provinces, as the Fathers of Confederation did, with revenues adequate to discharge their responsibilities, in the form of:
 - (1) A very substantial increase in the amount of the per capita subsidy paid by the Dominion to the provinces.

To increase this grant is merely to give effect to the clear intent of the Canadian constitution which was that this grant should be a major source of the revenue required by the provinces to meet their responsibilities. That it ceased to be a major source of provincial revenue requirements merely because of a change in political philosophy and in our ways of life is certainly no fault of the provinces. For example, the increase in Manitoba's cost of government has been due almost wholly to the hugely increased demands for social services which society makes upon the Manitoba government. Moreover, all provincial governments face still further increases in their expenditures for social services and education after the war.

Indeed so much of the increased cost of government has arisen in respect of matters which come under provincial jurisdiction that even the wealthiest province will be unable to support the modern cost of provincial responsibilities upon the limited tax base of direct taxation *shared with Dominion government*. This is especially true when the Dominion government now is under an economic and moral compulsion in the national interest to take the lion's share of this form of taxation. Unless, therefore, it is proposed to transfer to the Dominion government certain functions now exercised by the provinces, such as education or public health and other forms of social welfare, the only alternative is for the Dominion government to increase its per capita subsidy. The transference of such functions as education from the provinces to the Dominion would be a direct invasion of provincial autonomy which, I feel sure, a majority of the provinces would strenuously resist. An increase in the Dominion subsidy would not be an invasion of provincial autonomy but the very reverse. For a majority

of the provinces it would make their present illusory autonomy consisting of the legal right to do things, a reality by clothing them with the financial capacity to exercise that right.

- (2) A national adjustment grant to those provinces which could qualify for it on the basis of fiscal need.

The amount of the grant would be such as to enable each province (including its municipalities) without resort to heavier taxation than the Canadian average, to provide adequate social, educational and developmental services.

- (3) An emergency grant to a province in which bad conditions prevailed. This would be made for a year at a time, reduced as soon as possible, and eliminated as soon as possible.

- III. By the provinces agreeing to assign to the Dominion Government as the Fathers of Confederation did in 1867, the sole right to levy the chief taxes of the State.

In 1867 the Fathers of Confederation assigned to the Dominion government what were then the chief revenues of the state, viz., customs and excise. In 1945 the provinces by agreement should do the same thing, namely, assign to the Dominion the sole right to impose what are universally recognized as the main instruments of taxation in a modern federal state, viz., inheritance taxes, and taxes upon the incomes of individuals and corporations.

- IV. By providing the provinces, as the Fathers of Confederation did, with an adequate and appropriate tax base, to which, in a financially responsible way they could resort to finance any unusual provincial expenditures.

In 1867 to finance their unusual expenditures the provinces were given the field of direct taxation to share with the Dominion. This was then an unused and a minor field of taxation.

The indirect tax field transferred from the provinces to the Dominion at Confederation and made up chiefly of customs and excise, was then the major tax field.

In 1945, the direct taxation inheritances and of the incomes of persons and corporations should be the major tax field carrying the heavier portion of the nation's tax load. It therefore should now be assigned exclusively to the Dominion government. To do this will leave the provinces without a field of taxation in which within the limitations of an efficient tax system they can exercise their financial responsibility by the imposition of provincial taxes. For example, they could not impose provincial retail sales tax except by adding to the total of the regressive taxes in Canada. The provinces, therefore, should be provided with a field of taxation to take the place of that which they would have surrendered to the Dominion government. This point can best be dealt with in committee, whose deliberations I shall not anticipate by further remarks on that head.

The financial responsibility of the Provinces should be retained and can be retained.

This raises the question of whether the provinces would retain their financial responsibility if they get a large percentage of their revenue requirements from the Dominion treasury rather than from provincial taxation. If the moneys provided by the Dominion government were in excess of provincial needs, they would not. If, on the contrary, the normal provision by the Dominion government were measurably less than provincial needs, financial responsibility would be retained. Financial responsibility is marginal in character in the sense that it arises in connection with that margin of the provincial budget which is not taken care of by existing estimated revenues. Suppose, for example, that Manitoba's

normal revenues, are equal to her normal expenditures. The result is a balanced budget. Suppose now that there is a demand for an increase in the grant to education. Ordinarily, in such a case, financial responsibility arises from the judgment which the government must exercise as to whether it is better to let education do without a grant or to increase an existing, or impose a new tax, or curtail some other provincial service. Clearly if all that the provincial government has to do is to pay the increased grant to education and send the bill for it to the Dominion government, there is no financial responsibility. But if with all the help the province gets from the Dominion government, however considerable it may be, there is still some margin of its budget that it must take care of by a provincial attempt to get the necessary additional revenue from a provincial field of taxation, the province will retain a sufficient measure of financial responsibility to assure prudent administration. This is so because all of the provincial decisions which make for financial responsibility or otherwise, take place in a margin beyond a budget which is usually otherwise in balance. They are made in a contest for the government's favour between a specific increase in expenditure on the one hand, and the considerations which it is necessary for the government to take into account in order to provide funds with which to meet that specific increase in expenditure, on the other.

Thus, if the Dominion government's normal assistance to the provinces plus the provinces' other revenue resources is measurably less than the provinces' normal expenditures, there should not be any practical loss of financial responsibility even although the Dominion assistance is substantial.

If Provinces are to retain their financial responsibility they must have a field of taxation to which they can resort to finance any unusual expenditures.

One thing that financial responsibility does involve, however, is that the provinces have powers of taxation. In most cases it is only by the exercise of its powers of taxation within the limitations of an efficient tax system to raise the money necessary to take on the specific new expenditure which appears in the margin outside of the normal budget, that financial responsibility is maintained. If, therefore, the provinces surrender to the Dominion the field of direct taxation, and their other tax revenues such as gasoline taxes are already utilized in the support of the present normal budget of the province, the province, if it is going to retain its financial responsibility, will have to have a substitute tax field to take the place of the field of direct taxation which will be surrendered to the Dominion government if the present Proposals go through.

V. By the Dominion taking over not all of the debts of the provinces, as the Fathers of Confederation had it do in 1867, but merely the relief debts owing to it by certain provinces, and upon condition that the provinces so relieved in turn would relieve their municipalities of all relief debts owing by the municipalities to such provinces, and would make equitable adjustments with those municipalities which have already repaid to Manitoba their relief debts.

VI. By the Dominion in addition to the foregoing entering into such further fiscal arrangements with the provinces as will provide all provinces with a credit adequate to support their shares of capital expenditures involved in the carrying out of the national post-war programme.

By all of these means that I have mentioned the financial capacity of all provinces to carry out their constitutional responsibilities will be restored and all provinces will be provided with a credit to carry out their part of the national post-war programme to help provide employment and income for those who are returning from our defence. There is not one of us in a position of responsibility who wishes to reward the men and women in the Services with another depression. But this time we must do a better job of making the Canadian people prosperous than we did after the last war. To do so, we must realize

that it is a mass need, plus mass purchasing power which creates mass consumption. It is mass consumption in turn which sets in motion large-scale mass production. Without mass production on a large scale we have mass unemployment.

No one disputes that there is mass need. The key to the whole process by which mass unemployment is avoided is mass purchasing power. Yet by leaving to the provinces the sole field of direct taxation, we have virtually forced the Dominion government to get, and all throughout the depression it in fact did get, far too large a part of its tax revenues from harsh, regressive, indirect taxation which diminished mass purchasing power—the very thing upon which we depend to make our economic system work. If we had set out deliberately to sabotage the free enterprise system, there is hardly any step which we could have taken which would have been more effective for this purpose than to retain in the power-machinery age of 1945 the Dominion-Provincial financial set-up which was created to meet the needs of the primitive Canadian economy in 1867.

With the financial arrangement of 1867, we have no quarrel as it relates to the facts and conditions of 1867. But the facts and conditions have changed, and to these changed conditions we have failed to apply the principles of Confederation. The Fathers of Confederation intended that the Dominion government should have control over the main taxation instruments. When with changing conditions the Dominion lost effective control over the most important tax in the modern federal state, we have so far failed to restore that control, except temporarily, by the Tax suspension agreements.

The Fathers of Confederation intended that the Dominion Subsidy should be adequate for provincial needs. When, as a result of provincial needs greatly increasing, the subsidy became inadequate, we did nothing about it.

The Fathers of Confederation intended that the Dominion should have control over matters national in scope and cost. When Unemployment Relief was misinterpreted as being a local responsibility of the municipalities and provinces, we did nothing about it.

That is why an allocation of responsibilities and taxing powers which seemed fair in 1867, and which worked satisfactorily for decades after 1867, produces such absurd effects to-day. The present unhappy condition of Dominion-Provincial relationships has been caused, not because we applied the principles of Confederation, but because we either failed to apply them or misapplied them.

What we seek as a reform is to restore the meaning and intendment of the British North America Act by applying the principles of Confederation to the facts of 1945. By co-operative action of the provinces and the Dominion we can do this without any amendment of the Constitution. Indeed, by so doing, we shall restore its meaning and spirit, rather than depart from it. And when we shall have done this, we shall find that we shall have solved our problems.

BRITISH COLUMBIA GOVERNMENT'S POSITION

HON. JOHN HART (*Premier of British Columbia*): Mr. Chairman and gentlemen, when this Conference convened yesterday morning it was addressed by the Prime Minister, who at the end of his address outlined the procedure for the guidance of the Conference. As some exception was taken to that procedure, the Prime Minister graciously gave way, which made it possible for the Premiers either to submit their statements then or withhold them for a later time. I took advantage of that opportunity to present a statement on behalf of British Columbia, a statement that we had carefully prepared before we came here, and one which reflected the position and attitude of British Columbia towards the Conference.

I want to make clear what our understanding of this meeting was. We were invited here by the Dominion government to receive proposals which they intend to make, and we were advised that we should not be expected to come to any particular conclusion or decision at this Conference. It is not our intention to do so. We are going to take these proposals with us. They are very far-reaching in their objectives and we will take them home with us, we will study them and give them every consideration. Then we will be prepared to come here to another meeting with a brief, either to accept them or to make counter-proposals as we see fit.

At this time let me give assurance to this Conference that it is the sincere desire of British Columbia that this Conference and the meetings to follow will be a success. As far as we are concerned we will make every contribution that we can, we will give every consideration and we will look forward to meeting you again and hope the results will be a great success for the Dominion of Canada.

PRINCE EDWARD ISLAND GOVERNMENT PRESENTATION

Hon. J. WALTER JONES (*Premier, Prince Edward Island*): Mr. Chairman, Mr. Premiers and Delegates, continuing the case for Prince Edward Island I may say that Prince Edward Island since Confederation has not developed satisfactorily. Over the past forty years the population has not increased. It has been forced to trade with Central Canada through railroads where trading formerly was done through ships mostly built in the province. Self sufficiency and home handicraft have steadily declined and goods purchased to replace handicraft. Ships, buildings, village shipwork products, have largely disappeared as local construction and in their stead manufactured products mostly from Central Canada have taken their place. Agricultural production and fisheries do not produce enough to purchase all the requirements of the people. Previous to Confederation Prince Edward Island was at least as well off as any other province. One of the unforeseen difficulties of Confederation is the loss of shipping and our customary trading routes.

In 1916 an effort was made to meet the transportation difficulties by widening the railroad gauge and transporting railroad cars to the mainland on a ferry. Railroad cars now transported number about 42,000 annually. This will be a success for railroad connections if certain improvements now projected are completed. It has not particularly helped us, rather it has hindered us, to maintain our natural market in Nova Scotia, Newfoundland or coastwise to New England and the West Indies. Only certain semi-perishable products such as potatoes, turnips, livestock, meats and dairy products can be transported in railroad cars while more perishable products for which Prince Edward Island is admirably suited such as fruits, fresh vegetables, milk and fish are excluded because of delays in transit or slowness of the service. Passenger transit is unsatisfactory and slow and latterly not even Pullman cars are available until the mainland is reached. However, an air service developed on Prince Edward Island now carries nearly one-tenth of all passenger flights in Canada and is a great help in passenger and mail transport.

There is practically no provision for transport to and from the mainland by trucks. The government owned ferry excludes trucks and buses by a very heavy charge or by not providing facilities. The new ferry via Wood Islands, operated privately under a subsidy, carries trucks at a fair rate but its capacity is so limited that the traffic offering far exceeds its capacity. There are continual delays due to lack of accommodation and the size of trucks. The Nova Scotia market which imports large quantities of foodstuffs cannot thus be supplied as formerly.

During the war, shipping ceased and harbours were allowed to decay. Newfoundland trade could not be supplied adequately and our natural market there was supplied to a large extent from elsewhere. Essentially certificates and permits for export were given in a large proportion to firms who formerly did not have much of the trade, and the regulations and allocation of permits had no representation from our province on the trade regulating boards.

It will be agreed that agriculture flourishes when large consuming centres are located nearby. In the maritimes and on the Atlantic seaboard there are millions of people who have to buy agricultural products produced at distant points. Prince Edward Island is the only maritime province with a surplus to sell. Field crops are five acres per capita or the same as Canada as a whole. The products must be sold outside Prince Edward Island as consumer's markets are not within the province to any great extent.

Agriculture and fishing are primary industries. They constitute the same kind of an economy to which Germany fears it will be reduced. When, in 1873, a contract was made for Confederation with Canada it included a unique clause stating that continuous and adequate communication with the mainland should be maintained. The intention was to make mainland connections up to date. If the agreement had been consummated in 1945 instead of 1873, it would have included adequate communication for railway cars, trucks, buses, and automobiles by ferries located in at least two points on Prince Edward Island and probably communication by air for mail and passenger travel; or else we would have remained out of Confederation.

Prince Edward Island is the only maritime province with a surplus of livestock, meats, dairy products, poultry and eggs, milk and oysters and also sells canned fish and meat, fresh lobsters, potatoes, turnips, Irish Moss, berries (frozen) and furs. Fruit, fresh berries, fresh vegetables and many other possible products cannot be marketed outside. Until recently, for example, meats could be marketed very profitably in Nova Scotia and elsewhere. The grading regulations stopped this trade completely so that it is not possible to market meat on the mainland if carried in ships or in trucks, except meat packing house products. Provincial regulations interfere in other ways and are supported by federal policy. Halifax is only one hundred and ten miles from one of the ferries and Sydney one hundred and eighty miles. If trucks could have been handled in an efficient way on that ferry many of our trading difficulties could have been solved.

Agriculture on Prince Edward Island is not adequately assisted. In the years 1941-1944 assistance per farm averaged only \$44 while Saskatchewan received \$158. Similar treatment of Prince Edward Island would have cost the Federal government \$1,425,000 more. The income per farm on Prince Edward Island in the same period was \$663, in Saskatchewan \$1,233. The Prairie Farm Rehabilitation Act or similar measures should have been applied, transportation by trucks provided, and coastwise shipping encouraged, and to retain what measure of prosperity there is, of course, subventions on fertilizers and free freight on grain should be continued.

The fur farming industry had its genesis on Prince Edward Island. Fur farmers were the best tax payers engaged in a primary industry on Prince Edward Island. During the war the industry was taxed practically out of existence. Only those who spent everything to hold on to their investment have survived or those who managed to obtain a new type of fox.

The fishing industry lacks frozen bait and cold storage, while better methods of fishing further out to sea should have been encouraged.

Industrial concentration has proceeded so far in Canada that now Prince Edward Island with sixty-three per cent in agriculture has a male labour income of only \$596 while two other provinces exceed \$1,000 with only seventeen

per cent in agriculture. The policy in Canada seems to be to penalize agriculture and reward industry as the farther away from agriculture, the more money there is.

Prince Edward Island has the highest percentage of British stock and its people have proven to be most patriotic. The French element have equalled or excelled the British in enlistments. The enlistments are second highest of any province. They top Canada in Red Cross subscriptions and invariably are first "over the top". But individual subscriptions to the Victory loans show where the money is. The last two loans show \$70 per capita for Prince Edward Island and \$172 for Ontario for individual subscriptions or, for all Victory loans, \$205 for individual sales on Prince Edward Island while Ontario is \$509, British Columbia, \$432, Nova Scotia \$337. Total individual sales and special names gave Prince Edward Island \$266, Ontario \$1,198 per capita.

Migration from Prince Edward Island continues apace. The increase per family is a close second to Quebec province. Under the present conditions nearly forty per cent leave the province in their productive years. The population of Prince Edward Island leads Canada in the numbers under twenty years, and also in those over sixty years. The young leave the province and take their educational training and earning power with them, both of which were acquired at the province's expense. They also take considerable wealth along and inherit a very considerable quantity, all of which is a direct loss to the province. So serious is the decline in recent years through migration to mainland war work that there are now 5,000 fewer women than men in the rural areas of Prince Edward Island according to Doctor Lattimer, Economist of McGill University, who made an economic survey of Prince Edward Island in 1944.

The land in rural areas has been considerably exhausted by increased war production. This will necessitate a return to better rotations and this in turn will lessen production in succeeding years.

The people of Prince Edward Island have no quarrel with corporations as such. They succeed because they have great bargaining power. But they complain about a system which locates them mostly in one area of Canada and they claim that taxes paid by them belong to the people as a whole. In the provinces where corporations are mostly located the people in secondary industries increased their earnings 121 per cent while the percentage increase in primary industries was only 89 per cent. (The figures are taken from Canada at War No. 43). Government policy must have favoured corporations and secondary industries during the war or why the greatly proportionate increased earnings? At any rate since they are favoured in policy, and are located at central points, the taxes collected belong to the whole people who support them. Certainly such taxes are either passed on to consumers in a sellers market or passed back to the producer in a buyers market. It matters not to a corporation what the amount of the taxes—all the people pay them. The corporations see to that.

The labour employed in wartime was taxed where it was located. The migration of labourers for war work from Prince Edward Island was about equal to the enlistments. Practically no war work was located in the province. The national income from 1941-1944 increased 33.6 per cent in Canada but only 11.9 per cent on Prince Edward Island. (Financial Post Year Book, 1943, page 22).

When consumers' goods are manufactured elsewhere and sold on Prince Edward Island labour is provided and taxed in the manufacturing province. Post war expenditures on Prince Edward Island should be much larger because materials purchased provide labour in other provinces. Similarly, agriculture should be kept prosperous to enable farmers to purchase. Farmers' needs are tremendous as machinery, buildings, land, tools, vehicles are greatly deteriorated.

The cost of public welfare, education, electricity, etc. is greater in rural areas than in urban areas and consequently rural areas do not benefit from these services to the degree they should. This merits special consideration in a rural community like Prince Edward Island.

It is obvious that a rural province like mine depending as it does upon the land, can never hope, unassisted, to provide an educational service equal to that in communities having varied resources and industries. An improved program of education should, of course, and would keep larger numbers of young people on the land. It cannot, however, keep all. Now, if a province has its own industrial centres to which its young people are drawn, then equalization of educational privileges is a problem of adjustment between urban and rural districts. If, however, as in the case of Prince Edward Island, many young people, after receiving their education, must leave the province altogether to find employment in the centres of industry, then education becomes extremely costly in terms of benefits accruing to the province. Surely there should be some recompense. Doctor J. E. Lattimer in his report on "An Economic Survey of Prince Edward Island", puts the matter very succinctly thus:

The more centralization the greater the need to restore the balance. It is the duty of the group to make sure that no area goes without schools and other services. Where centralization takes workers and earners away from the province altogether it follows that this question enters the federal field. Federal funds for educational purposes would in this case be as fair and equitable as they are necessary.

In rural areas the government cannot increase taxes. The land values have not increased in thirty years in dollars and the dollar has depreciated. The Family Allowances, Old Age and Blind Pensions, the Dependents Allowances are not taxable, and the veterans are largely excused from taxation. Labourers who remit money to their families are taxed in the province they work in. Liquor revenues are small under a Prohibition Act, and if Prince Edward Island be criticized for not taxing liquor sales we may say that a recent act to open up sale of legal liquor was vetoed by the Governor of the province, and he is appointed federally. It is said the Assembly cannot now proclaim the Act. Of course, prohibition encouraged a new kind of home handicraft which gives considerable concern to Federal Excise Officers. A federal loss of possibly half a million in taxes occurs yearly.

Since the Dominion-Provincial Tax Agreement was made in 1941, there has been a great increase in taxes collected. To show how rapid the increase we need only compare 1938 and 1942. In that period taxes on individuals increased thirteen times and taxes on corporations increased five times. This indicates a new arrangement is necessary as a compensation.

The Government of Prince Edward Island is a frugal one. The deficits are growing larger year by year due to unavoidable expenditures. In the present fiscal year, the deficit is estimated at \$400,000.00. The Province has the lowest per capita debt in Canada. The Civil Service has only half as many employees according to population as several of the provinces, and salaries are very much lower. As an example of the frugality of the Government, the pay for labourers on Government roads was only 25c an hour until 1944, when it was slightly increased. This example will explain why a minimum wage law of 50c an hour would be opposed on Prince Edward Island.

The primary industries on Prince Edward Island do not yet see the need of a Workmen's Compensation Act, or cannot afford it. Few labour unions exist. Risks of accidents in primary industry is several times greater than in secondary industry.

The Provincial Department of Agriculture is not able to afford even county representatives. The poverty of the government precludes it. Farmers get along and quite efficiently, too, without many of those government aids extended and considered necessary in all other provinces of Canada.

I have spoken at length of our claims for equal treatment and especially emphasized the great disabilities of war-time. I have not yet stressed the necessity of a compensatory allowance for the post-war period. But I have shown that agricultural areas should receive treatment equal with other areas, and when goods are manufactured and purchased on Prince Edward Island providing labour outside the province, more goods should be delivered to the province on an adjustment. If farms on Prince Edward Island are to have electricity, they should be assisted federally. If we raise the health and welfare standards assistance again is indicated. Vocational Training should be federally supported. Educational improvement could be achieved by a federal grant to each province without infringing on Provincial right of control of the curriculum and school management. The Housing Act provisions should be extended to high schools and community centres.

It is estimated that 25 per cent of the farm homes on Prince Edward Island are in need of rehabilitation. If the provisions of the Farm Loan Improvements Act 1944 are not considered to be sufficient the Government of Prince Edward Island would recommend that Section III of the National Housing Act be broadened to include loans at low rates of interest and payable in a manner consistent with the returns of the farmer from farming operations for the purpose of taking advantage of rural electrification—such funds would be used for the purpose of installing electric wiring in houses and outbuildings—electric water supply equipment—bathrooms—septic tanks—electric equipment for barns and household appliances—small household refrigeration plants for storage of farm produce—installation of modern household heating systems—rural telephones—radios. The provisions should also provide for removal and replacement of obsolete housing and outbuildings.

There will probably be a great development of tourist trade on Prince Edward Island. Even in war-time, without an advertising campaign, every available room in the province of Prince Edward Island is taken by tourists. What provision in the Housing Act provides for tourist accommodation in National Parks?

We believe that a new section should be added to the National Housing Act, making funds available to hospital boards at low interest rates, to supply modern facilities and equipment. All six hospitals on Prince Edward Island are now supported by public subscriptions, with the exception of a small government grant for maintenance.

When municipalities are given grants for acquisition of lands, for low rental housing projects, due credit should be given for the street system and over-all services, such as sewage disposal, water-works plant, fire and police protection, and other services provided by the municipality.

When grants-in-aid are given provinces they should not be given wholly on a population basis. The Technical Education grant of former years adopted the principle of first allocating a sum for management set-up and divided the remainder of the grant by population. An example of the unfairness of a population division is shown in the Physical Fitness grant where a division of \$250,000 gave Prince Edward Island just \$1,862.00 per year. Naturally no action could be taken with such a small amount.

I hope an adequate picture of conditions on Prince Edward Island has been presented. There is no doubt but that transportation to the mainland is the vital problem. Transportation is at least fifteen years behind conditions as they obtain in other places. Truck ferry service must be provided. Coastwise

traffic in ships must be encouraged. Newfoundland—our neighbour—has built or is building now some eighteen ships to serve the Colony, and has complete Cold Storage facilities at eight points for fishermen, with a total of fifteen projected. Why not such advantages for Prince Edward Island?

It is a matter of keen interest how a country like Newfoundland can make great progress in war-time, declaring huge surpluses, when a province like Prince Edward Island, actually declines in war-time. Last year's farm income declined two per cent under the previous year, while the advance in Canada as a whole was about 28 per cent. Are conditions in the Maritimes sufficiently good to encourage Newfoundland to join with Canada?

It would appear as if we are so small that we are by-passed. We cannot afford to maintain permanent offices at Ottawa for lobbying, as several other provinces are doing. The few members we elect are hardly important enough in numbers to influence policy greatly in the Federal House or in committees.

I might eloquently urge that the Federal Government could make a point of using us better, or at least use us as well as other provinces, for we contribute a good deal in men and materials which are valued in other provinces. It might be that because of our insular position, because we are small, because we have a really well-bred and homogeneous population, we could be used as an experimental area to try out new ideas in health, public welfare and education. The province is willing to be a pilot plant for such trials. The Family Allowance plan was first tried on Prince Edward Island. I suggest more extensive experiments be undertaken.

The Province would be pleased to co-operate also if the Island were used to experiment with superior types of animals and plants. Potatoes, for example, are freer of disease than elsewhere, and already more than half the certified seed in Canada is produced on Prince Edward Island. The cattle are the freest from disease in Canada, and Tuberculosis and Bangs Disease practically do not exist. The quality of hogs and poultry is six times as high as some other provinces, in the two top grades. There is a great opportunity to make this small well-defined area an experimental plot for the development of superior types of plants and animals, and thus Prince Edward Island would benefit, because it is small and because it is an island, and Canada as a whole, and other countries, would benefit by being able to secure disease-free livestock and plants. National Research has a fine field here for experimental work.

In the Confederation Treaty on which the British North America Act is based, clause 2 states, "the system of government best adapted under existing circumstances to protect the diversified interests of the several provinces and secure efficiency, harmony and permanency". This was the plan outlined for a Federal government. Also in clause 2, is "provision for the admission into the Confederation on equitable terms of Newfoundland, Prince Edward Island, North West Territories and British Columbia". I ask if Prince Edward Island's interests are efficiently and permanently protected, or if the inclusion of Prince Edward Island was made on permanently equitable terms? Clause 28 states specifically that ferries between provinces is a charge of the general parliament. How has that agreement been carried out? When Mr. Howe presented his submission yesterday he referred to transportation and communications, but ferries were not even mentioned. I have shown that ferries for truck and bus-carriage have hardly been considered, and where it was possible to ferry them, excessive prohibitive charges were made. Equitable treatment should carry them free of charge, or almost so. Ferries should be National Highway under the terms upon which we entered Confederation.

The Maritimes contributed to Confederation in their shipping, which was at that time one-seventh of the entire shipping tonnage of the United Kingdom. A proper recognition of the value of shipping might well have maintained that average, but apparently our greatest contribution to Confederation was considered

of no national significance and was permitted to die. Policies were adopted which forced other ways of trading. Contributions from the Maritimes helped to deepen the St. Lawrence, pay for the upkeep of canals, and open up the Northwest with no resultant commercial benefits to the Maritimes and a relative hindrance to the Maritime ports. The eyes of Maritimers were forcibly turned away from the sea. Investments in Central Canadian enterprises became more profitable than investments at home.

Someone might suggest that when Prince Edward Island joined Canada we were paid \$800,000.00 to pay off the landlords, who were presented with almost all Prince Edward Island by the Mother Country in 1767. They might argue that some kind of a gift was given us for joining Confederation. But the facts are that we have been paying 5 per cent on this amount since 1873, and no benefits accrued from this deal. The landlords were bought out, but the province did not realize more than enough from the lands to pay the interest for twenty-five years. We became a landless province and for fifty years since have been paying the five per cent interest. At the time of Confederation it was recognized that we were to receive \$45,000.00 yearly in lieu of public lands. The loan should have been cancelled long ago, and in fact, a refund of about \$35,000.00 for fifty years made.

In 1905 a railroad bridge across the Hillsborough River was built. It was an old bridge transported from the Miramichi River in New Brunswick. It was desirable to use it also as a traffic bridge and an agreement between Prince Edward Island and the government of Canada was made that the province pay \$9,750 a year for the use of it for traffic. All traffic expenses, such as planking and providing guards were to be paid by the province. We suggest that after forty years the province has paid more than the original cost of the bridge, and payments should cease, and a refund made.

I shall quote from a speech by Sir John A. Macdonald in Parliamentary Debates of the year 1865, "I believe the people of Canada east and west to be truly loyal. But if they can by any possibility be exceeded in loyalty, it is by the inhabitants of the Maritime Provinces. Loyalty with them is an over-ruling passion. There is a rivalry between the opposing political parties as to which can most effectively express their loyalty."

The clear intent of Confederation was for each province to have a fair share of the resultant commercial benefits. But the federal parliament has failed to function as intended at the time of Confederation, or as the Maritimes were promised it would function. The conditions which have developed are blighting the native genius of our people.

During the pre-census year, ending March 31, 1941, the average earnings of male wage-earners in Prince Edward Island was about one-half, or a little more, of that of British Columbia and Ontario. At the same time there was one wage-earner for every $10\frac{1}{2}$ people, while for Canada as a whole there was one wage-earner for every five people. With half the yearly earnings twice as many people were dependent upon them. It is not only the low wages, but the lack of wage-earners in proportion to population that makes for inequality.

In the "Case of Prince Edward Island" presented to the Royal Commission on Dominion-Provincial Relations in 1938, an argument was advanced to show the detrimental effect of the so-called national policy on Prince Edward Island, particularly. The statement was made that in no province was the general effect as serious as on Prince Edward Island and that Nova Scotia and New Brunswick suffered heavily but not so greatly. The brief quoted at length from a submission of the late Honourable Norman Rogers to the "Jones Commission" in Nova Scotia. The brief is fully endorsed by us and is available for any committee.

I might have expressed the opinion that conferences such as this one should be more frequently held and suggest that a permanent secretariat should be set up. The central office could clear most of the questions which are advanced from time to time on Dominion-Provincial Agreements, and could also deal with questions advanced by the provinces.

Now, Mr. Chairman and Gentlemen, I wish to deal, briefly, but specifically, with the proposals of the government of Canada as they affect my province. I do this against the background of statements appearing on pages 8 and 48 of the "Proposals", as read to us in this Conference. On page 8, it is stated:

It is with these considerations in mind, and in search of common ground for agreement, that the Government presents its proposals. These proposals assume a broad federal responsibility, in co-operation with provincial governments, for establishing the general conditions and framework for high employment and income policies, and for support of national minimum standards of social services. They also assume that provincial governments should be in a financial position to discharge their responsibilities adequately.

On page 48, the following appears:

The third requirement of post-war financial arrangements is that they should make possible at least an adequate minimum standard of services in all provinces while not denying to any province the advantages which its resources give to it nor the freedom to establish its own standards.

Let us look now at the case of Prince Edward Island under the proposal to pay 12 dollars per capita annually.

Under the five points mentioned on page 51, of the Proposals, we receive \$1,092,000.00. We are also saved \$123,000.00 for Old Age Pensions.

On the other hand we lose our present subsidies and subventions. We lose also \$36,000 in succession duties, and our share of the 65-69 years old age pensioners will amount to \$190,000.00.

To sum up we shall have on the credit side \$1,215,000, and on the debit side \$1,325,000, a net loss to the province of \$110,000.

One more quotation from the "Proposals" on page 52:

Specific proposals may be modified in the light of the discussions which take place, or may have to be modified if agreement on other proposals proves to be impossible.

It is therefore quite obvious that the financial disadvantage to my province calls for a new proposal, or a modified proposal. We are ready now or later to consider the whole matter. We have our case prepared.

SASKATCHEWAN GOVERNMENT PRESENTATION

Hon. T. C. DOUGLAS (*Premier of Saskatchewan*): Mr. Chairman and Gentlemen:—It is both a pleasure and a privilege for me to bring to this conference the good wishes of our people in Saskatchewan. We are meeting at what may well be a turning point in Canadian history; ten years of economic depression and five years of war lie behind us; the deliberations of this conference may decide what lies ahead of us. The people of Canada are looking to this conference for leadership—our failure to meet this challenge cannot have anything but disastrous results for those we are privileged to represent.

To this conference the Saskatchewan representatives come in a spirit of co-operation and with a desire to serve the national good. We have not come to be dogmatic about our pet theories, nor to use this conference as a sounding

board to voice our grievances and complaints. We are looking to the future and not to the past; we are prepared to do everything possible to make this conference a success and see the Canadian people launched upon an era of economic expansion and social well-being.

I believe I am speaking for the people of Saskatchewan when I say that they do not wish us to approach this conference in any spirit of narrow provincialism. We have provincial problems and we believe that we have some grievances—and we shall not hesitate to voice these at the proper time—but we have come here to speak not only as citizens of Saskatchewan but also as citizens of Canada, and in a larger sense, as citizens of the British Commonwealth of Nations. We are concerned for the welfare of Canada as a whole, and for the people of the British Commonwealth, and also for the people of other nations because no nation can live unto itself; only in the peace and prosperity of the whole world can there be any security and tranquility for the people of Canada. It is in this spirit that Saskatchewan would like to approach the conference which you, Mr. Prime Minister, have been pleased to convene.

The Purpose of the Conference

From the memorandum on the proposed agenda we gather that this conference has been called mainly for three purposes. The first is to take all steps necessary to maintain full employment and a high national income as the prerequisite to a state of national well-being. No one can quarrel with this goal as being basic to any program of post-war reconstruction. As has been said, with the maintenance of full employment and high national income, we can master most of our difficulties; without this they will master us.

The war has given us some idea of our potential productive powers. Although, during the last five years three-quarters of a million men and women have been removed from civilian occupations we have managed to more than double our national income. When we realize that nearly half this production went for the destructive purposes of war we begin to comprehend what it would mean if our productive capacity were directed constructively toward the creation of goods and services designed to serve human needs. It has become a truism to say that if we can produce to destroy life then we can produce to enhance and enrich life. But we have yet to work out the economic and constitutional techniques by which this generalization can become a reality.

The second object of this conference, I take it, is to mobilize all the necessary agencies of government to cope with the problems of post-war reconstruction. Already men and women are being discharged from the armed services and workers are being released from war industries. We face the task of training and placing all such personnel in peacetime pursuits where they may make their greatest contribution to an increased national income. In this period of economic and social readjustment there are innumerable problems. The lines of responsibility in these matters are not clearly defined as between the various governments in Canada, with the result that there are on the one hand cases of duplication of services while on the other hand there are areas of jurisdiction which are a veritable no-man's-land. This is the place and now is the time to clearly define the powers and responsibilities of those governmental agencies charged with the responsibilities of post-war reconstruction.

During the war Canada has built up a great industrial machine. One of the tasks now facing us is to convert this machine to peace-time uses. In such conversion the provincial governments can play an important part if they are given the opportunity to do so. Up to the present the provincial governments have been almost completely ignored in the disposition and peace-time utilization

of war assets. This conference provides an opportunity for working out a policy whereby the assets for which the Canadian people have already paid during the war years shall now be made available to them with the least possible delay.

Not only our material resources, but, much more important, our human resources must be adapted to the tasks of peace. This involves not only training of discharged service personnel but also the re-training of those who are no longer needed in war industries. An even greater responsibility than training such personnel will be that of placing them in permanent and productive employment. It is futile to find work for returning servicemen merely by displacing civilians now employed. The only solution is to provide useful jobs for all those who are able to work, to care for those who cannot work and to ensure adequate remuneration to those engaged in our primary industries.

The third objective toward which this conference must strive is to attain a greater measure of social security by allocating to each agency of government sufficient financial resources to discharge the social functions for which it is constitutionally responsible. Up to the present we have failed to attain any appreciable measure of social security because one governing agency has had the responsibility without the means to discharge it while another agency of government has had the financial means but has lacked adequate constitutional power to act. This anomalous situation must end; one of the aims of the conference should be to effectively allocate powers and responsibilities between the respective governments of Canada.

In approaching this constitutional problem the Saskatchewan government belongs neither to the centralist school of thought, nor to those who insist upon provincial autonomy. Our theory of government can be summed up very well in the words of the Prime Minister of Canada, when he said, "We should not lose sight of the fact that Governments are only institutions created by man to serve human needs." With that sentiment we heartily concur. It seems to us, therefore, that it is not for this conference to become the arena for a battle royal between the advocates of centralization and the champions of provincial rights. Rather it is for us, first to endeavour to obtain an appreciation of the needs of the people of Canada, and secondly, to see to it that the agencies of government which can best satisfy those needs possess the necessary means to do so in so far as government action is necessary and desirable.

AGRICULTURE AND EDUCATION NEED EMPHASIS

May I say a word about the proposed agenda. There has been some discussion in the last two days as to just what the procedure should be and to what extent the provinces should make submissions. The Saskatchewan delegation feel that this is a two-way Conference, called by the Dominion government not only for the purpose of having the Dominion government submit to the provinces their proposals, but also that the Dominion government might have the benefit of the views and the objectives of the provincial governments. Therefore I feel that a good purpose can be served by the presentations which have been made here yesterday and to-day, and in making this presentation I want to say what has been said by previous speakers, that we are not making our proposals as counter-proposals to the proposals made yesterday by the federal government. As was stated by you, Mr. Chairman (Mr. St. Laurent) yesterday, it is not suggested that other governments have counter-proposals but that the provinces shall have this opportunity of placing their problems and their suggestions and their proposals before the federal government, just as the federal government has placed its proposals before us.

What I am going to say is said, not in the light of the proposals made yesterday by the federal government, but rather in the light of the proposed agenda that was sent out to the provinces dated March 15, 1944.

So far as the proposals made by the Government of Canada yesterday are concerned, I have no wish to make any comment on them at this time. The federal government is proposing a horse-trading proposition. I know something of the kind of horse they want us to give them. I would like a little time to examine the horse they propose to give us, to see if he has all his teeth—or no teeth—and whether his teeth will be efficient when he comes to the task of mastication.

What I propose to discuss now are the proposals which were outlined by the federal government in its proposed agenda of March 15, 1944.

In general we are in agreement with those proposals, although there are two items which can doubtless be remedied when the committees are being set up and their agendas drafted. The first of these is the failure to emphasize "agriculture" as one of the main industries to be considered, and where necessary, assisted. Full employment is not the only prerequisite to a high national income. The maintenance of the national income of Canada at a high level is in large part dependent upon keeping agriculture on a sound and remunerative basis. Stability of agricultural income requires that we minimize, in so far as it is humanly possible, violent fluctuations in production and in price levels.

Large-scale irrigation projects in areas affected by periodic drought will serve to mitigate against the sudden fluctuations in production which have proved so disastrous in the past. We in Western Canada are especially interested in such undertakings, and note with regret the absence of any reference to them in the proposed public improvements.

Instability of farm prices constitutes an even greater menace to a stable agricultural income. The establishment of floor prices offers some measure of assistance, provided that wheat is included in any scheme of price guarantees. But unless steps are taken at this conference to deal with the problems of marketing, the expiry of the operation of the War Measures Act will mean a return to the speculative market, with the resulting uncertainty of farm prices.

We are urging that a committee, or at least a subcommittee, of this conference be set up to deal with the problems of marketing farm products with a view to the maintenance of a more stable agricultural income.

Among the many things which we will urge before such a committee are:—

1. That the Canadian Wheat Board should function as the sole agency for the marketing of grain and that the speculative market should be abolished.

2. That in order to maintain the production of hogs, the Dominion government should endeavour to initiate a long-term agreement with Great Britain, whereby Canada will sell a minimum quantity of bacon; and that a minimum price should be guaranteed to the hog producers by the Canadian government.

3. That the Federal government should adopt a definite price policy for agricultural commodities consumed largely in Canada.

The second omission is a place on the agenda to discuss federal assistance to "education," especially in view of the extensive training program which is contemplated for returned service personnel. It seems to us that some thought should be given to education and to the Federal government's responsibility, not only in rehabilitating returned men, but also in helping to maintain certain minimum standards of education in Canada by financial aid to the provinces. The Dominion government grants for vocational and technical education have already established a precedent for such assistance but their bases must be broadened and monetary assistance must be commensurate with the educational duties which the provinces are required to discharge. We hope that when the committee on public welfare and social security is set up, a subcommittee will be appointed to deal with this matter.

Apart from these two major omissions and some minor matters which can be discussed in committee, we approve of the proposed agenda and I want to commend those responsible for its preparation; I believe they have approached the many problems confronting us in a spirit that has done much to ensure the success of this conference.

ENCOURAGEMENT OF PRIVATE INDUSTRY

It is proposed in the Dominion government's memorandum of March 15, 1944, that a committee be established to discuss how private industry may be encouraged to play its part in maintaining full employment and a high national income. Contrary to the views expressed by some ill-informed individuals, the Saskatchewan government is very much in favour of encouraging private industry wherever such development is not detrimental to the public interest. We have never opposed free enterprise but we have expressed our regret that in our present economy there is such a lack both of freedom and enterprise. For thousands of small industrialists and businessmen a free market, as we have always understood it, is almost non-existent. It is to this problem that the committee is to address itself.

In our opinion, one of the things to which such a committee ought to devote its attention is the elimination of monopolies and cartels as being the natural enemies of economic democracy. Nothing would do more to release those reserves of initiative and ingenuity latent in our people than the destruction of monopolies and the restoration of a genuinely free market. Thousands of small businessmen and small industrialists would be encouraged to assist in maintaining full employment, thereby increasing our national income, if the crushing weight of monopolies were removed.

Tariffs and other restrictions are also obstacles to free trade and an impediment to full employment and higher national income. Furthermore, the burden of the tariff falls more heavily on some provinces than on others and therefore becomes a source of friction and the cause of sectional ill-feeling. To this problem the committee, in our opinion, ought to give serious attention and courageous leadership.

High and inequitable freight rates are a further block to a free exchange of goods and services. Industry in all parts of Canada would be stimulated if all forms of discrimination were removed in the matter of freight rates. At present many provinces feel that tariffs and freight rates have become a form of tribute which they are compelled to pay to special privilege and concentrated monopoly.

PUBLIC IMPROVEMENTS

The second committee to be set up is one to suggest a programme of public improvements and socially-desirable projects designed to maintain full employment and a high national income. I take it that the government's views on this matter are set forth in a white paper entitled "Employment and Income" and dated April, 1945. On page three there appears the following statement:—

The Government does not believe it to be either desirable or practicable to look to the expansion of government enterprise to provide, to any large degree, the additional employment required. It follows that a major and early task of reconstruction is to facilitate and encourage an expansion of private industry, including primary with other industries.

It is not my intention at this time to debate the merits of government-enterprise as a means of providing employment and a high national income but I would remind the Federal government that they have already sponsored a number of very creditable public enterprises which have operated for the purpose of satisfying human needs. Moreover, during the war this country was forced

into one industrial venture after another in a desperate endeavour to secure the weapons of war, and to secure them in time to avert disaster. I hope this conference will not set its face against government enterprise particularly where it becomes necessary either to provide goods or services which are lacking or to provide employment for those who might otherwise languish in idleness.

It has been suggested in the White Paper that there should be advance planning of all necessary and desirable Dominion undertakings so that there may be available a "shelf" of soundly planned projects, ready for execution when prospective employment conditions make it desirable to increase public investment expenditures.

Now as to the desirability of having a shelf of properly planned projects ready to meet an unemployment crisis, I, of course, agree. That is a matter of excellent forethought. It is good as far as it goes, but in this connection I would like to deal with two points, and to state them with some definiteness.

The first is this: if public spending, in the form of construction or other projects will satisfy genuine human needs, why wait until there is an unemployment crisis? Why keep good things on the shelf? If governments exist to satisfy human needs, why wait? I can see no answer to this argument, and its validity should continue even to the point of diverting labour from the production of certain consumer goods of low, or even doubtful social utility by private industry, to the building of basically sound projects of high social utility by government industry. I could mention several projects that in my opinion should win out in a contest for labour and capital—for example, irrigation and power projects on the prairies, or the construction of a satisfactory highway system across Canada are more important to the development of our nationhood than some gadget that fills little if any basic need.

My second objection to the "shelf" theory is this: what will happen if the detailed plans of the Dominion government fail when the backlog of consumer purchasing power has been exhausted after the war? And these plans may well fail and I fear in my heart that they will fail. At the present time many of our people have war bonds, gratuities, and compulsory savings. For a time these will enable them to purchase the output of our factories. What will happen when they can no longer buy what they need and what we are capable of producing? Then it is evident that in this land of abundant resources and manpower, with a population equipped with technological knowledge and skill, more definite and far-reaching measures will be necessary, and the responsibility for them will rest upon all the governments of Canada.

There may be those who will criticize what I have said; they will claim that I am arguing for socialism as the only basis upon which this country can secure full employment and a high national income. I should like to persuade the conference of this fact if I could, but I am not quite that optimistic. What I would like to do is to persuade this conference not to set its face against the self-evident. Whether we like it or not, it is now recognized that economic planning and government enterprise are essential prerequisites to national prosperity.

The proposed agenda suggests that this committee should consider public improvements that are "*economically justifiable*". We are arguing for a wider interpretation of these terms of reference. Even where certain projects may not be immediately economically justifiable, they may be "*socially justifiable*", which is even more important. Any project which rehabilitates an area of our country, or rescues a section of our population from penury, or which saves some of our natural resources for posterity, such a project is justifiable in our opinion even though it may not show an immediate return in dollars and cents. We believe that in planning public improvements this

conference must take the long view, assessed in terms of human values, rather than a mere ledger-book view which measures every project in debits and credits.

If these public improvements are to have some social and national value then there must be joint planning between the Dominion, Provincial and municipal agencies of government. At the present time the Provincial governments have no representation on the regional committees of the federal Department of Reconstruction. Thus, provincial Departments of Reconstruction work without any detailed knowledge of the federal government's plans with respect to their provinces. The same is true of the distribution of surplus war material. Although the provinces are supposed to have priority in securing material, the fact remains that so far, very little has been made available to them. A continuation of such a policy can only make for wasted energy and duplication of effort.

The Saskatchewan government has a number of specific plans dealing with post-war projects. These are designed not only to provide employment but also to salvage certain areas affected by drought, to open up new fields of economic endeavour and to stabilize some of our existing industries and occupations. As the conference proceeds we will advance plans for irrigation of drought areas, for power development and rural electrification, for reforestation and conservation and for a housing scheme to meet the present emergency situation. We have already presented plans for a program of highway construction; this will be followed by plans for a building program to include hospitals, schools, recreational centres, a medical school, university buildings, agricultural schools, and also mental institutions and farm colonies for mental defectives.

If the provinces are to play their part in training returned service personnel they must have some assistance in erecting the necessary buildings and equipping them. This is equally true of recreational centres for the physical fitness and recreational programs and hospitals for any scheme of health insurance which the federal government may envisage. In all of these schemes, to make provision for maintenance costs is not enough—the capital costs will be considerable. Such costs could best be met by making these buildings part of a Dominion-Provincial plan for undertaking socially useful projects. Such ventures should not be classified as stop-gaps waiting on the shelf for a depression to occur, but as part of a national plan designed to increase the national well-being.

The physical fitness program and the venereal disease control program are two typical attempts by the Dominion government, in co-operation with provincial governments, to meet certain dominion-wide needs. This is a principle which may be considerably extended in scope in the ensuing years. However, while the desire of the federal government to give leadership and to make some financial contribution for these purposes is a forward step, it is evident that the federal authorities have had little appreciation of the extent of such undertakings. Such grants as have been made have been so small as to amount to little more than a pious hope and an empty gesture. The physical fitness program being undertaken in Saskatchewan involves a minimum expenditure of \$75,000 per annum. Toward meeting this cost, the Dominion has contributed the sum of \$17,500 to promote what is euphemistically referred to as a "joint" program for physical fitness. Similarly, the federal aid extended to the venereal disease control program represents but a fraction of the actual cost. Unless the Dominion government realizes the dynamic nature of such programs, it is fruitless for it to launch them, and then expect the provincial governments to bear the increasingly heavy burden of perpetuating them.

PUBLIC WELFARE AND SOCIAL SECURITY

A third committee to be set up will be one to deal with public welfare and social security. Whether one agrees with the principle or not, we must recognize that the trend is toward collective action in the matter of providing social security; the post-war years will see increased demands for legislation looking toward the establishment of a greater measure of social security for the average Canadian. It has been said that a country's greatness can be measured by what it does for its unfortunates. By that criterion Canada certainly does not stand in the forefront of nations of the world although there are signs that we are becoming conscious of our deficiencies and are determined to atone for lost time. Our business here is not to assess blame but to find remedies by which Canada can provide all the security and well-being which our natural heritage and our industrial economy have made abundantly possible.

During the depression years of 1929-39 we failed to meet the situation effectively, partly because we were still endeavouring to operate under an allocation of powers which belonged to another age. In 1867 when the Fathers of Confederation gave to the provinces full responsibility for all social services this was not a very onerous burden, nor did it involve heavy financial commitments. Since that time our ideas about society's responsibilities for the unfortunate have undergone fundamental changes; technological unemployment has become a persistent and almost permanent problem. Consequently the "Thirties" found the provincial governments with responsibilities which they could not finance, while the federal government had the financial means but contended that they lacked authority to deal with this critical situation effectively. All of us are familiar with the devices by which governments sought, but without success, to resolve this dilemma. The results were human misery, inefficiency in administration and constant frustration for a generation of youth. Because jurisdiction was not clearly defined, groups of people were unable to find assistance because no one would accept responsibility for aiding them. This, I am sure we will all agree, must never happen again.

The time has come to allocate responsibility for social welfare, and with it the financial means to discharge that responsibility. The government of Saskatchewan is prepared to agree to a plan whereby the provinces would surrender by agreement income, corporation and succession duty taxes in return for such fiscal arrangements as will enable the provincial governments to discharge effectively their various responsibilities. We think that this is just and equitable. The Premier of Ontario mentioned this afternoon that fifty per cent of all taxes collected come from the Province of Ontario, but we must also remember that money collected from taxes in one province may have been earned in another province. Only by pooling the proceeds of these taxes can each province receive its fair share and every person in Canada enjoy a minimum standard of social services, irrespective of where they may happen to reside.

In surrendering these fields of taxation Saskatchewan would want assurance on the following points:—

1. The proposed fiscal arrangements must include safeguards which will ensure to each province sufficient funds to enable it to keep in step with the ever-expanding concept of social services.

2. Any tax agreement with the federal government must stipulate that the right of set-off shall not apply; otherwise provincial governments would lose their last vestige of independence and the very subsidies to be paid could be used to intimidate any province which did not do as it was told. Our own experience in this respect indicates the necessity for such a safeguard.

In the reallocation of fields of jurisdiction there are two matters which the Saskatchewan government would have the conference consider:—

1. The federal government should have jurisdiction only over these social services which require relatively little supervision by social workers, i.e. unemployment insurance, disability pensions and old age pensions when the means test has been eliminated. The province, on the other hand, should have jurisdiction over all social and health services which require constant supervision by trained social workers.

2. The provinces should not be asked to surrender any field of jurisdiction, unless it can be assured that there will be no lowering of the standards that have been set by the province.

With these safeguards the Saskatchewan government is prepared to surrender certain fields of taxation and also certain areas of legislative jurisdiction. The details of such an arrangement can be worked out in the committees. We do not think there are any insuperable obstacles in the way. For our part we are prepared to go a long way in order to find a formula that will be mutually satisfactory to all. We approach this problem in a spirit of hopeful co-operation, believing that we shall be met half way by all those who are anxious to see a system of genuine social security made possible in Canada.

GENERAL PRINCIPLES SUBSCRIBED TO BY SASKATCHEWAN GOVERNMENT AS BASIS OF DISCUSSION

Let me sum up our position by first stating some general principles to which the Saskatchewan government subscribes as a basis for discussion at this conference. In enunciating these principles in general terms, may I repeat that we are not being dogmatic in any respect. We have come here prepared to listen and to learn; if we find our position is untenable, we will alter our stand accordingly. We will do all in our power to contribute to the success of this conference in so far as this can be done without jeopardizing the welfare of the people we represent. To this end let me set out our position:—

1. We believe that social security measures should be raised to a minimum standard across Canada in order that no Canadian shall be penalized or discriminated against because of the geographical area in which he resides. That to us is fundamental.

2. The government of Saskatchewan is prepared to surrender certain fields of taxation in return for fiscal arrangements which will enable it to meet effectively its social and constitutional obligations.

3. We believe that the Dominion government should assume responsibility for social services which do not require extensive supervision, the provincial governments to be responsible for social services involving considerable supervision.

4. The government of Saskatchewan believes that there should be a National Labour Code since at present every province which passes advanced labour legislation is thereby penalized. We are prepared to surrender jurisdiction over a substantial part of the labour field provided we have sufficient guarantee that the labour standards now enjoyed in our province will not be lowered or impaired.

5. We believe that no province should be discriminated against because of the political philosophy of the government which people have seen fit to elect.

6. We believe that constitutional changes must be effected to ensure effective control over marketing by designated governmental agencies. Without elaborating on so important a matter, it may be said that we believe that the control of marketing should include power to control prices as well as standards.

7. The Saskatchewan government maintains that the dominion parliament should have power to implement international treaties or agreements of any nature entered into by the Dominion government. In view of the fact that many trade agreements and international treaties are contemplated which affect labour, health and the suppression of the narcotic and white slave trade, it is essential that the dominion parliament have power to deal effectively with these problems.

8. We feel that the British North America Act should be amended to enable provinces to delegate to the Dominion legislative jurisdiction with respect to any subject matter within the exclusive jurisdiction of the provinces, and that the Dominion government be endowed with reciprocal powers in this regard.

9. The Saskatchewan government will press for the following changes in respect of the British North America Act:—

- (a) That the British North America Act should henceforth be amended in Canada rather than across the seas.
- (b) That the British North America Act should be revised placing certain fundamental religious, racial and civil liberties in a Bill of Rights, amendable only by the unanimous consent of the provincial legislatures concurrently with the dominion parliament.
- (c) That other portions of the act should be capable of amendment in a simplified manner.
- (d) That all appeals to the Judicial Committee of the Privy Council from the courts of law in Canada should be discontinued.

We feel that the adoption of these proposals would prevent social progress from being throttled by the dead hand of the past and would enable us to adjust our governmental framework to meet the needs of a new day while at the same time guaranteeing the rights of all minorities and protecting our people from ill-advised or ill-considered innovations.

SPECIFIC MEASURES WHICH SASKATCHEWAN DELEGATES WILL URGE CONFERENCE TO CONSIDER FAVOURABLY

Having dealt with these general principles, let me name a few of the specific measures which we will urge this conference to consider and adopt:—

1. We shall urge the Dominion government to cancel all provincial treasury bills held by them in respect of relief and similar obligations.

These Treasury Bills are the result of obligations which were made by the provinces during the depression, obligations for which they were not responsible. The fact that this conference is coming now to recognize that the care of employables is a dominion responsibility should surely point to the necessity for eliminating these treasury bills that were incurred during the period of the depression.

2. If as a result of this conference the provinces surrender important fields of taxation, we shall ask that consideration be given to the assumption by the Dominion, of provincial debts as recommended in the Sirois Report. At the time of Confederation when the right to levy custom and excise taxes was surrendered by the provinces, all provincial public debts were assumed by the Dominion. It does not seem unreasonable to suggest that such a course of action be repeated.

3. We shall press for a reduction of tariffs and a determined war against monopolies and cartels as the most effective means of establishing a free market and thereby stimulating trade and industry.

4. We shall ask that consideration be given to a downward revision and the equalization of existing freight rates.

5. The Saskatchewan government is desirous of having the fullest possible use made of the Hudson's Bay Railway as a means of reducing the cost of living in Western Canada and facilitating increased trade.

6. The Saskatchewan government will press for financial assistance to municipalities by the loaning of money at low rates of interest by the federal government through the Bank of Canada to assist in municipal reconstruction projects.

7. We shall urge that the facilities of the Bank of Canada be used to finance an adequate housing scheme as well as a program of socially-useful projects. We contend that to leave the building of homes exclusively to private lending institutions opens the door to discrimination as between individuals, municipalities and even provinces.

8. We shall urge a closer collaboration of the Department of Veterans Affairs with the Departments of Rehabilitation in various provinces.

9. We believe that the Dominion government should give grants to the provinces for the purpose of maintaining certain minimum standards of education across Canada. In our opinion education should be classified with the other social services.

10. The Saskatchewan government will press for the decentralization of industry wherever that is practicable. We maintain that money spent by the Dominion government to assist private industry belongs to all the people of Canada and should not be confined to a few provinces. Even in those provinces which are primarily agricultural there is a need for industries to process primary products and to utilize agricultural commodities for industrial purposes. If private industry is to be assisted, we believe that cooperatives organized for the purpose of processing their own produce should receive assistance on a similar basis.

11. We shall urge that the federal government assist in the construction of nationally and internationally important roads of a high standard and in the building of colonization and development roads.

12. Finally, we will press for assistance to agriculture throughout the Dominion commensurate with the importance of the industry. Such assistance should include adequate marketing facilities and price guarantees, together with technological research and assistance to the farming population.

These proposals are not advanced in any spirit of narrow provincialism. We are deeply concerned, not only for the welfare of our own people but also for all the people of this dominion. National unity must be more than a political concept. It must have an economic basis. If the Maritimes have heavy burdens, they must become our burdens; if the central provinces have difficulties, they must be tackled by all of us; the problems of any one province should become the concern of every other province.

In the same way the province from which I come has unusual problems which are of such a nature as to be national in their implications. Soil, climate and geography have tended to make ours a one-industry, in fact almost a one-crop economy. Ours is a particularly hazardous economy subject to the hazards of price, drought and insect pests. In spite of these occasionally adverse conditions, Saskatchewan has produced tremendous quantities of food as part of our contribution to Canada's war effort. We want the assistance of the rest of Canada in solving our problems just as we would like to have a part in helping other parts of Canada to meet their difficulties. We believe that it is in the national interest that we should learn to bear one another's burdens.

Seventy-eight years ago the Fathers of Confederation forged a nation out of distinct and diverse peoples. Since that time economic distress has often strained the bonds of Confederation almost to the breaking point. These strains and stresses can and must be reduced and if possible, removed. The Founders

of Confederation established political unity; ours is the equally difficult task of creating economic unity without which national unity has little or no meaning. The times in which we live challenge us to be worthy of our destiny. We are called upon at this conference to speak, not only for the provinces we represent, but also for Canada. We have a community of interests; what helps one will help us all; what hurts one will hurt us all. We have not come here in an attempt to gain at the cost of others for we believe that no single province can enjoy prosperity at the expense of any other province; prosperity, like peace, is one and indivisible.

MR. ST. LAURENT: Mr. Manning, it has been suggested that you might prefer to wait until to-morrow morning. Several of these gentlemen have told me that they have heard about all they can absorb in one day. Would you prefer to go on now?

MR. MANNING: Whatever is the pleasure of the Conference, Mr. Chairman. I can say this: If it is the wish of the Conference to conclude this phase of the work to-night I will not detain the meeting over fifteen minutes at the outside. Whatever is the wish of the Conference is acceptable to me.

MR. ST. LAURENT: Then you may proceed.

ALBERTA GOVERNMENT PRESENTATION

HON. E. C. MANNING (*Premier of Alberta*): Mr. Chairman and Gentlemen, yesterday morning in common with some of the other premiers I presented to the Conference a general statement of the views of the Government of Alberta with respect to the over-all problems that we have met here to discuss. It is therefore unnecessary for me to reiterate the points that were mentioned in that statement other than to mention that we have had the statement prepared in printed form and it is available to any of the delegates who would care to have it in that form in addition to the proceedings of the Conference.

May I say, Mr. Chairman, that my colleagues and myself are of the very definite opinion that the purposes and objectives of this important conference from to-day on can best be attained by confining our work at this stage to two things: First, to agreement as to the subject matter which properly should be included within the scope of Dominion-Provincial relations and which bear on the establishment of a satisfactory post-war economy, in other words, Mr. Chairman, the preparation of a comprehensive agenda of subjects.

May I say that we consider it important in the preparation of that agenda that it should be an agenda of subjects rather than an agenda of proposals. In that respect I perhaps take a somewhat different viewpoint from that expressed by one or two of the Premiers this afternoon who suggested that the proposals placed before us by the Dominion government should form the basis of our discussion from this stage on. I suggest, Mr. Chairman, that rather than having an agenda of proposals it should be an agenda of those subjects which embrace the problems that are common to Dominion-Provincial relations and to the establishment of a sound and satisfactory post-war economy. In that respect I intimated in the statement that I made to the Conference yesterday morning, that the Province of Alberta has prepared a draft agenda, and inasmuch as I also have it in printed form, with your permission I will pass it around to the representatives of the provinces and that will save the time of reading it in detail. I would ask that the agenda be included in the report at this point.

DRAFT AGENDA SUBMITTED TO THE DOMINION-PROVINCIAL CONFERENCE BY THE
GOVERNMENT OF ALBERTA

A. *Taxation and Finance*

1. Allocation and financial responsibility as between the Dominion, Provincial and Municipal governments for:
 - (a) Post-war rehabilitation and reconstruction.
 - i. Requirements of returned men:
 - (a) Housing.
 - (b) Post-war training.
 - (c) Financial assistance to enable veterans to establish themselves in civil life.
 - ii. Public Works:
 - (a) Highways, bridges, public buildings, etc.
 - (b) Irrigation, rural electrification, etc.
 - (b) Post-war Social Services:
 - i. Education.
 - ii. Public Health.
 - iii. Public Welfare:
 - (a) Pensions.
 - (b) Family Allowances, etc.
2. Post-war policy re taxation:
 - (a) Allocation of tax fields as between the Dominion, Provincial and Municipal governments.
 - i. Direct taxation.
 - ii. Indirect taxation.
 - (b) Effects of Dominion taxation on provincial revenues.
 - (c) Rates of taxation.
 - (d) Simplification and removal of duplication.
3. Methods proposed to finance:
 - (a) Rehabilitation of returned men.
 - (b) Needs of those unable to secure gainful employment.
 - (c) Post-war social services and public welfare.
 - (d) Post-war public works.
4. Post-war National financial policy:
 - (a) Use of the national credit to ensure individual and national incomes adequate to permit the complete and satisfactory distribution of the entire Canadian production or its equivalent and to maintain the national production at its optimum level.
 - (b) Use of the national credit to supplement the tax revenues of the Dominion, Provincial and Municipal governments.
 - (c) Financing production and distribution:
 - i. Capital for production.
 - ii. Distribution of purchasing power.
5. Post-war refinancing of public debts:
 - (a) Funded debt.
 - i. Dominion.
 - ii. Provincial.
 - iii. Municipal.
 - (b) Dominion Treasury Bills.

6. Specific financial matters as between the Dominion and one or more of the provinces:
 - (a) Tariffs.
 - (b) Foreign exchange.
 - (c) Natural resources awards.
 - (d) School lands funds.

B. Post-war Rehabilitation and Reconstruction

1. Immediate requirements of returned men:
 - (a) Low cost housing.
 - (b) Training for civil occupations.
 - (c) Assistance in re-establishment.
2. Allocation of responsibility re rehabilitation of returned men and those who have been engaged in war industries:
 - (a) Post-war employment opportunities.
 - (b) Care of those unable to secure gainful employment.
3. Post-war public works:
 - (a) Formulation of a national public works program:
 - i. Highways, bridges, parks, public buildings, etc.
 - ii. Irrigation projects.
 - iii. Rural electrification.
 - (b) Allocation of responsibility for implementing national program:
 - i. National responsibility.
 - ii. Provincial responsibility.
 - iii. Municipal responsibility.
 - iv. Joint projects.
4. Utilization of war materials, buildings, etc.

C. Social Services and Public Welfare

1. The formulation of a broad program of post-war services embodying the minimum of regimentation and the maximum of elasticity to meet the requirements of different peoples and localities in the fields of:
 - (a) Education:
 - i. Primary.
 - ii. Secondary.
 - (b) Public Health:
 - i. Preventative.
 - ii. Curative,
 - iii. Hospitalization.
 - (c) Pensions:
 - i. Wider scope.
 - ii. Increased benefits.
2. Public and Child Welfare:
 - (a) Care of indigents and unemployables.
 - (b) Care of incurables.
 - (c) Care of juveniles.
 - i. Neglected children.
 - ii. Delinquents.
 - iii. Incurables.
3. The allocation of responsibility for administration as between the Dominion, Provincial and Municipal governments.
(The widest possible decentralization must be maintained to ensure the people themselves effective control over policy and administration with respect to all social and public welfare services.)

D. The Conservation and Orderly Development of Natural Resources

1. Dominion responsibility to share costs of measures designed to conserve natural resources and to facilitate their orderly development:
 - (a) Protection and conservation of forests, and of watersheds affecting inter-provincial water supply.
 - (b) Aerial surveys and ground crew checks of standing timber.
 - (c) Upkeep of game sanctuaries, etc.
 - (d) Aerial and topographical surveys to assist in mineral exploration.
2. Land:
 - (a) Joint Dominion-Provincial land settlement programs embodying assistance to settlers, especially veterans, in clearing and breaking, etc.
 - (b) Dominion responsibility re:
 - i. Land and soil surveys for settlement.
 - ii. Completion of surveys for boundaries and base lines.
3. Coal:
 - (a) Adoption of a national coal policy for Canada.
 - (b) Provision of an equitable scale of subventions and reciprocal agreements with the United States with respect to markets.
 - (c) National standards for classification of coals as to size, quality, etc., for use throughout the Dominion.
4. Fisheries:

Transfer of administrative authority from the Dominion to the provinces.
5. Industrial development:
 - (a) National policy to encourage decentralization of industry.
 - (b) Provision of adequate credit facilities for orderly industrial development.
 - (c) Safeguards against monopoly control.
6. General:
 - (a) Natural resources transfer agreements.
 - (b) National program of scientific research into all phases of conservation and utilization of natural resources.

E. Agriculture

1. Markets.
2. Establishment of floor prices and other measures necessary to stabilize farm incomes.
3. National policy relating to agricultural production.
4. Elimination of difficulties arising out of divided responsibility as between the Dominion and the provincial governments.
 - (a) Overlapping of authority.
 - (b) Duplication of services.
5. Revision of Prairie Farm Assistance Act:
 - (a) Extend scope and improve effectiveness.
 - (b) Simplify and reduce cost of operation.
6. Agricultural research.
7. Agricultural credit facilities:
 - (a) Long term credits.
 - (b) Short term credits.

F. Transportation and Communication

1. Revision of the Canadian freight rate structure to remove the discriminatory features now prevalent.
2. Uniformity of legislation and regulations governing highway traffic and transport.
3. Aviation:
 - (a) International.
 - (b) Interprovincial.
 - (c) Provincial.
4. Radio:
 - (a) Jurisdiction.
 - (b) Policy.

G. Labour

1. Termination of Dominion regulations imposed under the War Measures Act:
 - (a) Wage Control Orders.
 - (b) National Selective Service.
2. Clarification of jurisdiction and responsibilities with respect to labour matters as between the Dominion and the Provincial Governments.
3. Uniformity of labour legislation.

H. Constitutional Matters

1. Clarification of Present Dominion vs. Provincial fields of jurisdiction.
2. Proposed amendments to the B.N.A. Act:
 - (a) Re-allocation of powers and responsibilities.
 - (b) Appeals to Privy Council.
 - (c) Power of disallowance.
 - (d) Control of immigration policy.
 - (e) Senate reform.
 - (f) Judicial reform.
 - (g) Parliamentary and electoral reform.
3. Procedure for amending constitution.
4. Canadian citizenship.

I. General

1. Tourist trade.
2. Extension of provincial boundaries.
3. Indian affairs.
4. Review of certain provisions of The Criminal Code, e.g. lotteries, etc.

May I point out that the draft agenda does not contain any argument with respect to the subject matters that are enumerated therein. It is merely a comprehensive list of these matters which we consider come within the scope of Dominion-Provincial relations, matters which are basic to the establishment of a sound post-war economy. As will be seen, we have grouped these matters under nine major headings. Under these major headings we have itemized the special divisions into which the subject matter in our opinion, can be properly broken down.

In offering this draft agenda I wish to make it perfectly clear that it is merely by way of suggestion, because we feel that the final agenda approved by the Conference should be most comprehensive in its scope. In addition to the matters which are enumerated in this draft, it should also include any other matters which any of the provincial governments or the Dominion government feel should properly come within the scope of Dominion-Provincial relations and the establishment of a satisfactory post-war economy. May I therefore suggest on behalf of the Province of Alberta that it is our considered opinion the Conference should proceed from this stage to agree upon a comprehensive agenda of subjects rather than proposals, and that we should then proceed, as a second step, to establish the appropriate and representative committees. In my judgment we would require at least eight or ten committees to cover the field adequately. To these committees should then be assigned the subject matter contained in the proposals which have already been presented to the Conference and any other subject matters which the Dominion or provinces wish to add. That should be broken down between those appropriate committees. After dealing with the subjects they could then be presented to the committee, and that there should then take place the argument pro and con with respect to the various proposals and alternative methods of dealing with the subject matter. That course of procedure, Mr. Chairman, would lead in process of time to the committees reporting back their final proposals based not only on the suggestions of the Dominion government, but others, to a further meeting of this Conference.

May I say at this stage that these proposals are most comprehensive and embrace, I think, practically all of the subject matters that any other provinces would wish to raise. The final proposals recommended to this Conference should come from the committees after they have considered them, together with other proposals that may be presented and argued before the committee by representatives of both the Dominion government and the Provinces. So far as the Government of Alberta is concerned we are prepared to submit our arguments on any or all of the subject matter to these committees at the appropriate time.

May I therefore add, Mr. Chairman, that I regard the general statements and broad proposals that have already been presented to the Conference as a whole as the background in the light of which the committees can analyse and study the subjects referred to. I do feel that that background is most essential; and that the time we have taken in listening to the submissions that have been made has been well spent if it provides a background in the light of which those appropriate representative committees can analyse the subject matter allocated to them. After dealing with that subject matter and in the light of that analysis and with the background of the general discussion and presentations which have taken place here, the committees should be in a position to report back to a future meeting of this Conference the final proposals which will come as close to meeting the viewpoints and desires of all the governments here assembled as in my judgment it would be humanly possible to obtain. I emphasize that, Mr. Chairman, because I submit that that is essential if when these final suggestions or recommendations from the committees come back to the Conference we are to get the measure of unanimity and support of them that I know everyone gathered here desires. We can only do that if the committees have the opportunity of formulating proposals based upon a background of these general discussions, and after they have heard most comprehensive arguments for or against the various points on the proposals that may be submitted.

My colleagues and I therefore urge most strongly that that course of action should be followed from here on. May I close with one further observation. I do feel that there is one point that we should guard against

carefully in our approach to an effort to solve the problems that confront us all, namely, not to adopt the preconceived idea that the premises on which we built our cases are necessarily the only ones that are sound. Naturally there is among us a diversity of viewpoint in respect to the soundness of the premises on which we must build our process of reason. It has been a matter of concern to me that in the general approach that has thus far been made to these problems, that in the majority of cases the reasoning, in my opinion at least, has been founded largely on premises, the soundness of which I cannot help but question. With all respect to the viewpoints of others who may feel that these premises are absolutely sound, I appeal to them not to form the opinion at this stage that these premises are necessarily the only premises which are sound or even that **these premises necessarily are absolutely sound**. To make clear my point, may I say that the approach to our problems thus far primarily has been based on the assumption that redistribution of aggregate purchasing power available to the Canadian people under our present economy can assure them a standard of living and a measure of social security compatible with the abundance of our national resources and the tremendous productive capacity of Canadian industry as demonstrated during the war. I very seriously question the soundness of that premise. It is obvious to all of us if the premise is unsound then no matter what method we work out for the redistribution we will not obtain our results.

Great emphasis has been laid on methods of redistributing purchasing power. Our social security programs thus far are all predicated on the philosophy of redistribution. The great emphasis which is laid upon full employment springs largely from the theory that the redistribution of purchasing power through full employment is the only solution to our problem or is at least basic to the solution to our problem. Personally, I suggest to this Conference that the theory of full employment in a peacetime economy in this modern mechanized age of mass production is as antiquated as an old maid's dream and as improbable of realization.

It is also argued that the redistribution of the aggregate revenues which it is practicable to raise by present methods of taxation can place all governments in Canada in a financial position to discharge fully their respective responsibilities and meet the just demands of their people. That again, Mr. Chairman, is a premise that I suggest we should analyse most carefully before we accept it as absolutely sound and before we build upon it the future economy of Canada.

I hope every member of the Conference will understand that I am not saying this with any idea of criticism of the viewpoints of others. I am saying it only because it is the conviction of my soul that this Conference must be successful; and if we have that conviction then we cannot preclude from our analysis any point upon the soundness or otherwise of which may hinge the future welfare of the Canadian people and of the governments of this country.

PROCEDURE

Mr. ST. LAURENT: Perhaps instead of adjourning this plenary meeting to any specific hour, it might be the pleasure of the Premiers, now that the general statements of all provinces have been made, to meet with Mr. Ilsley, Mr. Howe and myself in committee to explore the matter of determining the agenda and the best methods of dealing with the agenda to expedite the further consideration required by the proposals and by the subject matter with which these proposals deal. If that is agreeable perhaps we might meet in Room 16 to-morrow morning at the convenience of these gentlemen. Is it agreeable if we meet at ten?

Mr. MACMILLAN: If we meet at ten, can we have a plenary session at twelve, and get on with the job?

Mr. ST. LAURENT: I would imagine it may take more than two hours' work to do everything that the committee may have to do.

Mr. DUPLESSIS: It will take at least the forenoon and maybe all afternoon.

Mr. ST. LAURENT: Perhaps there might be a tentative adjournment to three o'clock to-morrow afternoon or to such other hour as may be fixed to-morrow morning, subject to the information being conveyed to the other members of the Conference.

Mr. DOUGLAS: I suggest making it tentative for three o'clock.

Mr. DUPLESSIS: I think what the minister has suggested is an improvement but the improvement will not last long. I am afraid that we shall be starting all over again what we have been doing ever since the beginning. We want to proceed to business. I understand that to-morrow morning a Steering committee will be chosen and perhaps other committees, and it may be decided to have no more plenary meetings—I do not know.

Mr. ST. LAURENT: There is one matter of great importance for future generations, and that is that a photograph is to be taken at 2.45 to-morrow afternoon on Parliament Hill of the gentlemen attending the Conference. Immediately afterwards we could convene in this chamber, and if further time was required a decision could then be made.

Mr. MACMILLAN: How far shall we get by appointing only a Steering committee? Could we not go further and draw up a list of the names of those who are going to work on the various committees to study the matters brought before the Conference? If we did that we should be making progress. But if all that is done to-morrow morning is to appoint a Steering committee, and then they have to meet again to appoint other committees, not very much will be accomplished to-morrow.

Mr. ST. LAURENT: A Steering committee will be composed of each of the Premiers and ministers representing the federal government, and I am sure they will be ready to proceed with the appointment of other committees which it may be found desirable to set up. This meeting now stands adjourned to meet at three o'clock to-morrow afternoon after the photograph is taken on Parliament Hill.

At 11.05 p.m. the Conference adjourned, to meet again at 3 o'clock, August 8.

APPENDIX

The following is the English translation of the remarks made in French by the Premier of the Province of Quebec.

HON. MAURICE DUPLESSIS: I stated that we considered the British North America Act as a contract which has been ratified by the Westminster Parliament and which has always kept its contractual character, and that it can only be amended with the consent of the contracting parties.

The report of the proceedings of the Conference to the effect that it is a contract which cannot be amended by the contracting parties is certainly incorrect and it should therefore be rectified.

PLENARY SESSION — No. 3



DOMINION-PROVINCIAL CONFERENCE

ON

RECONSTRUCTION

Wednesday, August 8, 1945

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

DOMINION-PROVINCIAL CONFERENCE ON RECONSTRUCTION

HOUSE OF COMMONS, OTTAWA, AUGUST 8, 1945.

REPORT OF PROCEEDINGS

The Dominion-Provincial Conference on Reconstruction met in the Commons Chamber at 3.30 p.m., the Hon. Mr. St. Laurent presiding.

STEERING COMMITTEE'S REPORT

Hon. L. S. ST. LAURENT: Gentlemen, I feel I should apologize to you not only in my own name but on behalf of all those who constitute the Steering Committee that was set up just before we adjourned last night, for the inconvenience to which you may have been put in coming to this Room this afternoon.

The Steering Committee met from 10.30 a.m. to 1 p.m. to-day in Room 10. It was unanimously agreed on setting up a Continuing Co-ordinating Committee consisting of the Prime Minister of Canada and the nine Provincial Premiers. The functions of this Committee are to supervise and co-ordinate the work of all the continuing committees to be established by the Conference and to recommend the establishment of additional committees as may be thought desirable. It is also charged with considering improved machinery for Dominion-provincial co-operation and to consider all matters not specifically provided for in the terms of reference of other committees. The Steering Committee then adjourned in order to permit each Premier to consult with his delegation this afternoon on the terms of reference of the proposed continuing committees.

I am sorry no definite arrangement was made to notify the delegations that there would not in consequence be any plenary meeting of the Conference this afternoon, but that instead each Premier would be consulting with his own delegation in one or other of the several committee rooms which are available.

The Conference adjourned at 3.45 p.m.

PLENARY SESSION — No. 4



DOMINION-PROVINCIAL CONFERENCE

ON

RECONSTRUCTION

Friday, August 10, 1945

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

DOMINION-PROVINCIAL CONFERENCE ON RECONSTRUCTION

HOUSE OF COMMONS, OTTAWA, AUGUST 10, 1945

REPORT OF PROCEEDINGS

The Dominion-Provincial Conference on Reconstruction met in the Commons Chamber at 2.30 p.m., the Prime Minister, the Right Hon. W. L. Mackenzie King, presiding.

Right Hon. W. L. MACKENZIE KING: Gentlemen, may I apologize for having kept you waiting. I myself have been waiting to see if there was not some further word which I could give to members of the Conference with respect to the world situation at the moment. Thus far there has been nothing beyond what was given to the press at noon to-day. What was given out was to the effect that the Japanese Government have declared their readiness to accept the terms enumerated in the joint declaration which was issued at Potsdam on July 26, 1945, by the heads of the governments of the United States, Great Britain and China and later subscribed to by the Soviet Government with the understanding that the said declaration does not comprise any demand which prejudices the prerogatives of the Emperor as a sovereign ruler.

The Japanese Government has asked both the Swedish and Swiss governments to transmit the official communication to the four great powers. It has not yet been announced that the Japanese communication has been received by the governments in London, Washington, Moscow and Chungking. It is known, however, that it has been duly received by the Swedish government in Stockholm.

Have you a report, Mr. St. Laurent, to make to the Conference?

REPORT OF THE CO-ORDINATING COMMITTEE

Hon. L. S. ST. LAURENT: Mr. Prime Minister and Gentlemen, the Co-ordinating Committee of the Conference, consisting of Messrs. Ilsley, Howe and myself for the Dominion government, and the nine provincial Premiers met yesterday morning from ten to one o'clock to consider the procedure of the Conference and in particular the best means of considering the proposals which had been put before it. It was then decided that sub-conferences should meet in the afternoon at three o'clock, under the following heads:—

1. Financial Arrangements
2. Public Investment
3. Social Security
4. Agriculture
5. Labour
6. Housing

and that the Dominion ministers responsible in each field would explain the Dominion proposals in detail and that other relevant matters might be introduced by the provincial representatives. The sub-conferences or sections did meet, and it is my understanding that substantial progress in the clarification and elaboration of the Dominion proposals was made.

The same Co-ordinating Committee met again this morning from 10.30 to 1 o'clock and it was agreed that the Co-ordinating Committee would meet again in Ottawa on November 26; that in the meantime each provincial government would study the Dominion proposals and those of other governments; that further details of the proposals of the respective governments, as they develop from study, would be circulated; the Secretary of the Co-ordinating Committee, Mr. Alex Skelton, to be responsible for keeping all the governments informed of all relevant matters that develop, and supplying such additional information as may be required; and that notification be given to the members of the reconvening of the full Conference this afternoon for the purpose of formally adjourning until after this further meeting of the Co-ordinating Committee on November 26.

I now, therefore, move that this Conference be adjourned, to reconvene on a date to be fixed and announced at or after this further meeting of the Co-ordinating Committee on November 26 next.

Hon. Mr. DREW: I second the motion.

Right Hon. W. L. MACKENZIE KING: Is there any discussion on the motion? If not, I will declare the motion carried.

Motion agreed to.

CLOSING REMARKS BY THE PRIME MINISTER

Right Hon. W. L. MACKENZIE KING (*Prime Minister*): Gentlemen, among other reasons I was detained was that I was drafting a few words which I thought might be appropriate wherewith to conclude the proceedings of the Conference. They are non-controversial but I would say this of them, that I believe they express the feeling common to all of us who have been assembled here during the past week.

Before the Dominion-Provincial Conference adjourns at the conclusion of this preliminary stage, I desire on behalf of the Dominion government to thank the delegations from all the provinces for the spirit in which they have approached the work of the Conference. I should like also, once again to seek to emphasize the urgency and the seriousness of the work of the Conference itself. The news which has come to us to-day is another reminder of the suddenness with which the whole world picture can change.

The world-shaking and world-changing events of this short week have underlined the urgency of the problems of reconstruction more emphatically than words could possibly do. There has been no week comparable to it in Canadian history; there has been no week like it in the history of the world. It is a week which is certain to change the whole course of human history.

On Monday morning last, when I stated that the end of the war against Japan was coming surely and, I believed, swiftly, I of course already knew a turning point had been reached in the war with the scientific discovery of the atomic bomb and its certain use at almost any moment. On Tuesday, we were reminded of the part Canada had played in the achievement of victory in Europe, by the welcome given the Commander-in-Chief of the Canadian Army on his return home from the scene of his triumphs. On Wednesday, word came

that the Soviet Union had thrown its vast military strength into the scale against Japan. The news of to-day makes it clear that the end of hostilities may come suddenly at any moment.

The cessation of war production and the full flood of military demobilization may in fact be at hand. This makes clear how great is the need for all possible despatch, consistent with thorough consideration of the proposals and suggestions before us, in reaching conclusions upon which the action alike of Dominion and Provincial Governments, in the work of reconstruction and the establishment of peace-time conditions, will depend.

If we are to keep down dislocation and consequent distress, everything possible must be done for the speedy conversion of war industry, for the re-employment of war workers, and, above all, for the smooth and rapid re-establishment of our veteran fighting men.

During the sessions of the Conference these momentous events have tended to drive the reports of our deliberations from the front page of the newspapers. With the limited space available in the press under wartime conditions, the Conference has inevitably been somewhat overshadowed. Nonetheless, the spirit and attitude in which all delegations have approached the common task have been reflected in the press. The spirit of cooperation and the general sense of heavy joint responsibility displayed on all sides have, I believe, been gratifying to the people in all parts of Canada.

Speaking for my colleagues as well as myself, we are most appreciative of the attitude which has been adopted. We, like you, in our deliberations, have been conscious of the host of unseen witnesses who have hovered over the Conference. We, like you, have felt a deep sense of obligation to those who gave their lives to preserve a free world in which we might have the opportunity to help in shaping the destinies of a free people.

Our deliberations have been happily free of partisan or parochial attitudes; the eyes of all have been lifted to the horizon. We have sought to examine and discuss the proposals and suggestions which have come before us with an overriding sense of the national interest, and of an interest much wider than the limits of our own country.

The Dominion government, I need scarcely say, has been pleased by the acceptance of its proposals as a basis of discussion. We have been anxious to avoid snap judgments or hasty decisions. So far as our proposals go we ask only for them consideration and examination on their merits. We intend to give the same full consideration to the proposals and suggestions of the provinces. We believe all proposals can be improved. It is our earnest hope that the arrangements made for continuing the work of the Conference through the period of adjournment will enable the Coordinating Committee to re-assemble much closer to the establishment of a stable and an equitable basis of Dominion-Provincial relations than Canada has ever had. When the full conference re-assembles, it is my hope that we shall be in a position speedily to resolve any possible remaining differences, and to conclude agreements which will be of benefit to all. That hope, I know, will be increasingly shared by the people of all the provinces, as the months pass and the alternative to agreement becomes clearer to all.

We have set our goal for the period of reconstruction and for the future. Our goal is the maintenance, in peace-time, of the high levels of employment and national income attained in war-time; and the use of the high productive capacity we have developed, to bring about a rapid advance in social security and in the standard of living of the people. With that goal all the provincial governments have expressed agreement. Full employment and a high national income in war-time are necessarily largely the result of the policies of the Dominion government. There has been general agreement with the view that,

in peace-time, the maintenance of employment and national income depend upon the policies of the provincial governments, as well as those of the Dominion. We all know, and we have all declared, that full success in our aim depends upon cooperation.

Cooperation towards the maintenance of high levels of employment and national income must be extended far beyond the bounds of our own country. The prosperity and well-being of our country, of every province, and of every municipality depend, in large measure, upon the maintenance and expansion of Canada's international trade. The extent of international trade unfortunately does not lie wholly within our own control; it is affected by the policies of other nations as well. This, however, is true: the effectiveness of our cooperation with other nations in the promotion of trade, and in other ways, depends very largely upon the extent to which our own country is united, strong and prosperous. In other words, the maintenance of Canada's high place in the world, and the promotion of our national interests in world affairs depend upon a sound foundation at home. The cornerstone of that foundation is a harmonious relationship between the Dominion and the provinces.

It has been said, over and over again, by the heads of all governments present, that nothing should be permitted to interfere with the success of the Conference; that it must not fail. With the auspicious beginning we have made, I feel convinced that it will not fail. If we should permit it to fail, the richest provinces, as well as the less favoured ones, will assuredly suffer. All the people will be poorer, and the country itself will be weaker. I know there is no need to appeal to all to maintain, throughout the duration of the Conference, the positive and constructive attitude which has so fortunately been in evidence in the preliminary stage of its proceedings.

With continued harmony and cooperation between the Dominion and the Provinces in the pursuit of common ends, no country can provide greater happiness and welfare to its own people than ours. What is more, working together as one, no people and no country can make a greater contribution to the happiness and to the welfare of humanity than this fortunate land of Canada. I feel I may say on behalf of all that, to the accomplishment of these great aims, we who have the responsibility of government shall continue, as we have begun, to work together until our task has been successfully performed.

Is it your pleasure, gentlemen, that the Conference should now stand adjourned until a date to be named by the Coordinating Committee?

The PREMIERS: It is.

Right Hon. W. L. MACKENZIE KING: I declare the Conference adjourned.

At 3.20 p.m. the Conference adjourned.

DOMINION-PROVINCIAL CONFERENCE
CO-ORDINATING COMMITTEE

Opening Statement by the Prime Minister of Canada

November 26, 1945

DOMINION-PROVINCIAL CONFERENCE CO-ORDINATING COMMITTEE

OPENING STATEMENT BY THE PRIME MINISTER OF CANADA, NOVEMBER 26, 1945

GENTLEMEN: On behalf of the Federal Government, and also personally, I have much pleasure in welcoming you to this meeting of the Co-ordinating Committee of the Dominion-Provincial Conference on Reconstruction. As you are all aware, the date of this meeting was set when the Conference itself adjourned on August 10. It would, I believe, assist us in proceeding with the work of the Committee if I were to recall the purpose for which the Co-ordinating Committee was established. The Committee was not to replace the full Conference which must necessarily be called together again before any final agreement can be reached. You will remember that the original proposal of the Federal Government was to establish a number of committees to consider the several Dominion Proposals in detail immediately following the adjournment of the full Conference. But the opinion was expressed by several provincial governments that time was required by each provincial government to study the full implications of the Dominion Proposals before special committees could usefully begin their work. This view was accepted by the Conference. To maintain continuity, a Co-ordinating Committee of the Conference was established. That Committee recommended, and the Conference agreed that the Co-ordinating Committee should meet again on November 26, by which time it was expected that all the provinces would be prepared to submit their views on the Dominion Proposals as well as any counter-proposals they might wish to bring before the Conference. It was understood that the main function of the Co-ordinating Committee, when it met, would be to determine future procedure.

Procedure in the Committee

The first question to be settled is that of the procedure of this Co-ordinating Committee itself. It will be for the Committee to determine first what is the most appropriate manner in which the views of each provincial government in respect to the Dominion Proposals may be presented. Next we shall have to decide upon the most satisfactory method of advancing towards a final agreement once the provincial views have been exchanged. At this point a technical consideration arises. During the preliminary meetings of the Conference in August the sessions of the Co-ordinating Committee were held in camera. There has been a good deal of discussion since August, in the press and elsewhere, as to whether the present session of the Committee should be in camera or should be open to the public. Since the Dominion Proposals are already a matter of public record, the decision on this point is perhaps of more direct concern to the provinces than it is to the Federal Government. We are, of course, prepared to abide by the decision of the Committee. Regardless of which decision is reached on this point there is a subsidiary question as to whether a stenographic record should be kept. Before we discuss these two questions there are one or two other points which I should like to bring to the attention of the Committee.

Method of Continuing Work of Conference

The next question to be determined by the Committee is the procedure which should be adopted following the presentation of the provincial views. It was the view of the Federal Government in August, and remains our view, that the most practical method of expediting the conclusion of an agreement would be to establish a number of joint Dominion-Provincial Committees to consider

each of the major aspects of the Dominion Proposals together with such modifications and counter-proposals as are put forward by the provincial governments. At the Conference, in August, sub-conferences met to discuss the following subjects: financial arrangements, public investment, social security, agriculture, labour and housing. Following the Conference, all of the provincial governments were advised, on August 13, that a Minister had been designated and a secretary appointed to discuss details of the proposals on each of these subjects with any interested provincial government. This arrangement provided for a useful exchange of views and the clarification of many points. It is our hope that this arrangement will now provide a nucleus for continuing committees on the several subjects to which all the provinces will appoint representatives. Before the joint committees can begin their work, it will be necessary for the Federal Government to give consideration to the views of the provincial governments which are submitted to this committee. I assume that each of the provincial governments will wish to consider the views of the others. It is our hope that these committees will be organized now and prepared to meet almost immediately, and in any event not later than the beginning of the New Year. The purpose we envisage for these committees is to reconcile the views of the various governments with the Dominion Proposals as far as possible, and to submit reports to the Co-ordinating Committee. As the present Dominion-Provincial tax transfer agreements expire at the end of each provincial fiscal year nearest to December 31, 1946, it is obviously desirable to expedite the conclusion of a new agreement. It would be our hope that the proposed committees would be in a position to report early enough to permit the holding of a plenary session of the Conference in February or late January.

The Dominion Approach

In beginning these sessions of the Co-ordinating Committee, I feel I should remind you of the spirit in which the Dominion approached the deliberations of the Dominion-Provincial Conference. May I quote of the words which I used in my closing remarks at the plenary session on August 10th when I said:

The Dominion government, I need scarcely say, has been pleased by the acceptance of its proposals as a basis of discussion. We have been anxious to avoid snap judgments or hasty decisions. So far as our proposals go we ask only for their consideration and examination on their merits. We intend to give the same full consideration to the proposals and suggestions of the provinces. We believe all proposals can be improved.

At that time I expressed the hope that when the full Conference reassembled we should be in a position speedily to resolve any remaining differences and to conclude agreements which would be of benefit to all. I said then, and I feel more strongly today, that that hope will be increasingly shared by the people of all provinces, as the months pass and the alternative to agreement becomes clear to all.

Acceleration of Dominion Proposals

As tangible evidence of the Federal Government's desire to achieve co-operation with the provincial governments and to speed up the work of reconstruction, it is our intention to appropriate necessary funds at this session of Parliament to provide at January 1, 1946, the planning grants for health insurance and the planning grants for public works as outlined in the Dominion Proposals. This is a modification of the Dominion Proposals made in August last. The health grant, as then proposed, was conditional upon the undertaking of a province to enter the health insurance scheme. What we are now proposing

is to make the grant available on January 1st without requiring any commitment other than an undertaking to report in an approved manner on the expenditure and the findings.

The public investment planning grant provides for payment by the Dominion of half the cost of planning all projects which are accepted by the Dominion as being subject to timing, provided that the cost of planning does not exceed $7\frac{1}{2}\%$ of the estimated cost of the project. It is proposed that one-half the grant will be payable upon registration of the project with the Dominion and the other one-half upon completion of the blueprints. Unlike the grants originally proposed, these grants will be paid if a project is accepted by the Dominion as timeable whether, in fact, it is subsequently carried out in accordance with a Dominion time schedule or not. It is proposed initially to make available in the next calendar year an amount up to \$1.00 per capita in each province.

These are firm commitments which we propose to make without regard to the acceptance of the over-all proposals. The Federal Government believes provision for planning in both these fields is a basic requirement to development along the lines and on the scale envisaged by the Dominion Proposals and should not be further delayed. We believe that, in any event, such planning is a sound investment in Canada's future.

Recall Aim of Dominion-Provincial Conference

It is, I believe, well for us to recall the goal we have set for the period of reconstruction and for the future. As I said at the closing session in August, our goal is the maintenance, in peace-time, of the high levels of employment and national income attained in war-time; and the use of the high productive capacity we have developed to bring about a rapid advance in social security and in the standard of living of the people. With that goal all the provincial governments have expressed agreement. Full employment and a high national income in war-time were necessarily largely the result of the policies of the Dominion Government. There has been general agreement with the view that, in peace-time, the maintenance of employment and national income depend upon the policies of the provincial governments, as well as those of the Dominion. We all know, and we all declared at that time, that full success in our aim depends upon cooperation.

It is a basic feature of the Dominion Proposals that every provincial government should be put in a financial position to discharge its constitutional responsibilities adequately. The Dominion Proposals have been framed with a view to achieving this objective. It should not be necessary to stress that there is a very real responsibility on each provincial government, in submitting counter-proposals, to seek to base these proposals on principles of general application which will provide a tolerable situation for the Dominion and all other provincial governments. Failure of the Dominion-Provincial Conference would react at least as unfavourably on provincial governments as on the Dominion and would not relieve the Federal Government of its responsibility to do whatever it can to carry out policies it believes essential in the national interest. In this connection I feel I cannot too strongly emphasize the greatly increased responsibilities which our economic and social objectives at home, and the problems of Canada's new international position arising out of the war have imposed on the Federal Government.

The World Situation

The Federal Government is already committed to very heavy expenditures purposely designed to maintain employment in Canada and to restore our markets abroad in the difficult period of transition from war to peace. These expenditures

will have an indirect but nonetheless powerful stimulating effect upon the economies and revenues of all the provinces. But this is only part of the picture. The Federal Government is also called upon to assume heavy international obligations for the maintenance of peace and national security. It was the very day the Dominion-Provincial Conference met in August last the world received the news of the use of the first atomic bomb. Some of you may have felt, at the time, that the language with which I described that event was exaggerated. But, in the few short weeks which have passed, we have come to see that the world has entered upon a new age. This is an age in which the survival not only of our own nation but of the whole of civilization may well depend upon the capacity of peace-loving nations to act speedily and effectively in world affairs. We in Canada in this age must seek above all else not to be divided or confused by domestic difficulties.

BRIEF PRESENTED TO
CO-ORDINATING COMMITTEE
OF THE
DOMINION-PROVINCIAL CONFERENCE

Submitted by
Honourable John A. Hart, Premier of British Columbia
November 26, 1945

BRIEF PRESENTED TO CO-ORDINATING COMMITTEE OF THE DOMINION-PROVINCIAL CONFERENCE

Submitted by
HONOURABLE JOHN HART
Premier of British Columbia

MR. PRIME MINISTER AND GENTLEMEN:—

Since the adjournment of the last Dominion-Provincial Conference the Government of British Columbia has given protracted thought and study to the proposals laid before it by the Dominion government. Although the time at our disposal has been short, my colleagues and I have earnestly tried to reach at least a tentative judgment on all the topics presented to us for consideration. It has become clear to us, however, that final judgment in the case of many of the proposals could hardly be reached without further discussion with the Federal Government. It is for that reason my remarks to-day are intended to be more in the nature of a progress report than a conclusive statement.

We find ourselves in complete agreement with the broad aims outlined in the proposals. We are satisfied that our task will not be finished until the course towards high-level employment and income has been clearly charted, and our individual responsibilities fully defined and accepted. In those cases where we have been obliged to reject the proposals made by the Dominion we have done so reluctantly. We are convinced that other alternatives can be devised which will not be inconsistent with the goal of full employment.

I shall not try to lay before this Committee the detailed results of the study we have made during the last three months. However, in order that the conclusions we have reached may be thoughtfully considered I believe it is necessary that I should give you a simple explanation of the methods we have used and the results obtained in appraising the proposals.

It will be recalled that the substance of the proposed financial arrangements was that the Provinces should “forgo the imposition of personal income taxes, corporation taxes, and succession duties” for an initial period. As compensation, it was proposed that the Dominion Government would pay an unconditional subsidy which would vary with changes in population and national production.

In trying to form a judgment as to the probable effects of these financial proposals upon the budgetary position of the Provinces, it seemed necessary to us that a comparison should be made between what the financial position of British Columbia might become if the financial proposals were accepted and what the position might become under some other agreement—as, for example, a return to the pre-war financial system, a continuation of the war-time tax agreement, or some other plan. We realized also that it would hardly be adequate to consider the proposed financial arrangements by themselves. In short, it was necessary to consider the financial aspects of the proposals as a whole. The method we selected was to assume that the Dominion’s proposals covering social security and financial arrangements had been adopted on April 1, 1941. In the light of this assumption, we endeavoured to determine the effects which the adoption of the proposals would have produced in the Provincial budget of 1941-42 and 1943-44. While this method of turning the clock backward had obvious disadvantages, which we recognized, there were certain important advantages in doing so. First, one of the primary objectives of the analysis was to form an unbiased judgment of the proposals taken as a whole. In order to do so, one could not ignore any of the suggestions advanced by the Dominion, in spite of the awkward method which might be necessary to study their effects.

Further, the war period seemed to offer as good an example of full employment conditions as could be reasonably expected under favourable post-war circumstances. We concluded, therefore, that if the effects of the Dominion's proposals upon the Provincial budget could be measured—even though crudely—during these two fiscal years, the results should be useful, though not necessarily conclusive, in indicating the effects which might follow the adoption of the proposals in the future.

In carrying out these intentions, it was necessary to consider two conceivable situations that might occur.

First, had the proposals been adopted in 1941, the Province would have had to provide in the 1941-42 fiscal year a number of increased governmental services. These services would have included complete health insurance, pensions for the blind at the age of 21 years, old-age assistance at the age of 65 years, and slightly improved public health services.

In addition to assuming increased services, the Provincial Treasury would have received \$4,290,000 less than was the actual experience of 1941-42 under the Wartime Tax Agreement.

In the fiscal year 1943-44, the Province would have improved its Treasury position by \$1,317,900. There are a number of reasons for believing that these figures—which are admittedly imperfect—represent the most favourable circumstances which could have arisen in these years. In the first place, in compiling these estimates it was assumed that the Province would have been able to raise more than \$7,000,000 in health insurance registration fees. In the second place, it was also assumed that the introduction of a complete health insurance scheme would have relieved the Provincial Treasury from providing hospital grants of approximately \$1,000,000, and the municipalities from providing hospital grants of about \$800,000. To the extent that these expectations had not been fulfilled, the financial position of the Province would have been made worse than has just been indicated.

There was, however, another conceivable situation to be considered. The Wartime Tax Agreement was itself an emergency arrangement. It was made necessary by the magnitude of the financial burden thrust upon the Federal Government by the War. It was the intention of the agreement that, at an appropriate date, after the close of hostilities, any Provincial Government could restore its pre-war tax system, if it chose to do so. Obviously, if the present proposals were to yield revenues substantially less than a Province could have secured from its own pre-war tax system, such a Province would have had some reason for preferring a return to the pre-war financial arrangements which were temporarily set aside by the Wartime Tax Agreements.

Accordingly, the second conceivable situation was studied. It was assumed that during the fiscal years 1941-42 and 1943-44, the Province had continued to collect the income and corporation taxes actually suspended under the Dominion-Provincial Agreement Act. Having estimated the yield which the Province might have secured from these tax fields, it was then assumed that the Dominion's proposals were substituted for these pre-war financial arrangements. After all budgetary effects had been considered, it was found that in the fiscal year 1941-42 the Province would again have provided expanded governmental services as previously outlined. In this instance, however, the Treasury would have had \$5,259,000 less than would have been the case if it had administered its own pre-war tax system. In the fiscal year 1943-44, the Province again would have had \$5,193,000 less than would have been the case under the pre-war arrangements. For the reasons that I mentioned earlier, these figures, too, could be considered to represent the most favourable circumstances which could have arisen in those years under the proposed financial arrangements.

It is my intention to file a short statistical statement with this Committee, in support of the statements which I have just made. I may say, however, that we are ready to provide complete information for the convenience of those who may wish to give the matter closer study.

The results of our analysis seemed to be sufficient reason in themselves for us to reject the proposed financial arrangements in their present form. However, there were other impelling reasons which made this course certain for us. In studying the budgetary effects which might have arisen if the Dominion's proposals had been adopted in 1941, no attempt was made to correct our calculations where the Provincial expenditures were known to have been inadequate.

Since the depression of the 1930's, the Province has been obliged to make very modest appropriations for the maintenance of highways, bridges, ferries, and buildings, and these appropriations have fallen short of the requirements considered necessary by the Department of Public Works to keep our existing highway system in reasonable shape. In the same way, appropriations for reforestation and fire-prevention have been inadequate. It is possible that the report of a Royal Commission, which is now concluding investigation of the forest industry, will shortly direct our attention squarely to these issues.

Larger appropriations would have been necessary, in these years, in many other departments of Provincial services. In the light of our previous findings it was clear to us that, under the proposed financial arrangements, there would have been little prospect of reducing these inadequacies.

Already we have some knowledge of the larger current expenditures we shall be obliged to consider in the immediate future. A Commission, which has carefully investigated the cost of education in the Province, has recently recommended that the Provincial Government should increase its annual appropriation for education by about \$4,500,000. The Government also is committed to making a review of the whole field of Provincial-Municipal financial relations, which it is anticipated may place another burden on the Treasury.

We have been unable to satisfy ourselves that, under the proposals, there would be much of a margin, if indeed any, with which to undertake legitimate capital works.

We have been led to this conclusion because of the known inadequacies in the existing standard of Provincial expenditures, and in the light of our earlier observations upon the budgetary effects of the financial proposals in years of war-time full employment.

These are all matters which we have felt bound to consider in appraising the significance of the proposed financial arrangements. Our over-all conclusion is that the proposed arrangements in their present form would not be appropriate, more particularly because they fail to take into consideration some of the serious financial problems of the Provinces.

We find ourselves in agreement with the objectives underlying the Dominion proposals of social security and high-level employment. In presenting our own point of view, therefore, we shall be equally interested in any other suggestions which appear to lead to a better solution.

There are certain principles which appeal to us, on the grounds of logic and equity, and which we think might fairly be applied as a test to any suggested financial arrangements. In our opinion any financial arrangement agreed upon must do justice to all Provinces. Consequently the formula must take into consideration all factors affecting their economy. In other words, the financial arrangements should be compatible with the Federal system. It is equally important that the financial arrangements should be consistent with the goal

of high-level employment and income. But in addition to these broad principles, which are self-evident, there are at least five conditions which we think ought to be satisfied in any general readjustment of Dominion-provincial *financial* relations.

These are as follows:—

- (1) The arrangement should be capable of implementation without amendment to the B.N.A. Act.
- (2) In any transfer of Provincial tax fields to the Dominion, the compensation to be paid to a Province in any year should never be less than the yield which the affected Provincial taxes would have produced, if they had been levied by that Province, at the tax rates in force when the arrangement was signed, or when the Province last collected the tax.
- (3) That any financial arrangement should provide for a thorough review of the agreement, and its possible amendment or cancellation, at regular intervals (say three or five years).
- (4) That where financial transfers from the Dominion to the Provinces are provided, the payments should be determined by an objective formula which may be applied to any or all Provinces.
- (5) That where financial transfers from the Dominion to the Provinces are concerned, wherever necessary, suitable arrangements should be made to compensate for variations in the price-level and changes in the population.

In accordance with these suggested criteria, we believe that the existing statutory subsidies—in spite of their known inadequacy—might very well be left untouched in any general readjustment. We are ready to consider Federal administration of the progressive tax fields for a trial period. Within the framework of these suggestions we believe that there are a number of possible ways by which the Dominion Government could administer some, or all, of the designated tax fields and in turn, distribute a compensating amount to the Provinces, and at the same time eliminate the burden of dual taxation upon the taxpayer. We have examined some of these possible methods, and we are prepared to exchange views.

We have noted with interest the suggestion of the Dominion that the Provinces might continue to tax the profits of mining and logging companies; the tax to be allowed as an operating expense. In our opinion, this suggestion, or some appropriate modification of it, would be desirable in any general readjustment.

I have confined my remarks for the most part to the proposed financial arrangements. It is our belief that once the main outline of a generally acceptable Dominion-Provincial financial arrangement has been developed, it will be possible to make rapid progress in the discussion of the various social security and other measures which have been brought to our attention. We shall be glad at that time to give full co-operation in the bringing about of satisfactory agreements.

Since the main objective of the Dominion proposals is to attain full employment and since the Provinces are asked to withdraw from certain tax fields in order that the Dominion may accomplish that objective, we believe the Dominion must accept full responsibility for such unemployment as may arise. Consequently, it must, in addition to Unemployment Insurance, make full provision for an adequate public investment program. Having given up their progressive tax fields, the Provinces would not be in a financial position to undertake a comprehensive policy of public investment, particularly in view

of the fact that at that time the Provinces' revenues would be greatly reduced due to a falling-off in national production. Further, the Provinces should not be expected to borrow for these emergency works under such conditions.

We have noted with interest the Dominion's suggestions regarding unemployment assistance. In this connection we believe that in order to reach an equitable division of responsibility, such questions as the definition of an able-bodied person, the treatment of self-employed persons, farm labour and other related matters, should be the basis of further discussion.

Old-age pensions should be placed immediately on a contributory basis and should be a national responsibility, the necessary powers to be delegated to the Dominion Government. Regarding old-age assistance for people from 65 to 70 years of age, British Columbia could not accept the Dominion proposals without a residence clause.

We approve of the proposal for a Health Insurance Scheme to be established on an equitable financial basis between the Dominion and the Provinces, and after full consideration and report by the committee on Health Insurance.

In the minds of most Canadians there is an expectation that all Governments in Canada will collaborate to the fullest extent in the solution of the difficult economic problems which lie ahead. As we begin to use in Canada the modern methods of fiscal policy, we believe that much of the misunderstanding and potential conflict between jurisdictions, which are apt to hamper new fiscal developments in a Federal system, could be minimized through the medium of a Dominion-Provincial Co-ordinating Council.

It should also be borne in mind that where Provinces possess rich resources, those Provinces likewise carry equally great responsibilities for expenditures in connection with administration, conservation, and development.

We cannot find that any provision has been made for adequate assistance to the Provinces for highway construction, so necessary for the development of our resources and also the tourist business.

Apart from subjects of mutual discussion that may arise at this conference, British Columbia desires to discuss with the Dominion Government certain subjects which affect our Province alone.

In conclusion, I may say that British Columbia approaches these deliberations in the fullest spirit of co-operation. We are hopeful that out of these discussions will arise some formula that will enable the Dominion and the Provinces to embark upon the well-conceived program of social security and high-level employment that has been devised.

It is in this spirit that we have offered our analysis and suggested certain conditions upon which the formula should rest.

We likewise hasten to assure you that we stand ready and willing to make and consider contributions toward the formulation of such an agreement, and are hopeful that in a true spirit of compromise we shall lay the foundations here for a new economic understanding that will bring about a betterment of conditions for the people and remove from their mind the fear of want, of sickness and old age.

BRIEF SUBMITTED BY
THE GOVERNMENT OF ALBERTA
TO THE
CO-ORDINATING COMMITTEE OF THE
DOMINION-PROVINCIAL CONFERENCE

Presented by
Hon. Ernest C. Manning
November 26, 1945

November 26, 1945.

BRIEF SUBMITTED BY THE GOVERNMENT OF ALBERTA TO THE
CO-ORDINATING COMMITTEE OF THE DOMINION-
PROVINCIAL CONFERENCE

PRESENTED BY
HON. ERNEST C. MANNING, *Premier*

Mr. Prime Minister and Fellow Premiers:—

On behalf of the Government of Alberta may I express our satisfaction that once again representatives of all ten Canadian Governments are assembled to share a grave responsibility,—the responsibility of selecting the foundation stones upon which must rest the super-structure of a new and vastly expanded post-war economy.

The trend of world events and national affairs since last we met, has but served to underscore the importance and seriousness of our task.

If we approve as the new foundation stones of Dominion-Provincial relations only such principles as are fundamentally sound and consistent, we need not fear for the future stability of the post-war economy we build thereon. On the other hand, if we are so foolish as to attempt to build our future Dominion-Provincial relations and our national post-war economy on a foundation composed of basically unsound and inconsistent principles, we will not only invite, but we will literally assure the ultimate collapse of all that we may build. Let us, therefore, not fail to give due heed to the extreme gravity of our decisions.

Since the last conference my colleagues and I have endeavoured to analyse carefully the proposals submitted by the Dominion Government, and to appraise the effect of their implementation on the economy of our Province and on Canada as a whole.

Throughout our analysis we have assumed that the Dominion Government shares with us our determination, that the proposals which are finally adopted, must be such as to assure the successful accomplishment of their two-fold purpose.

1. They must establish Dominion-Provincial relations on a practical and enduring basis by removing the disabilities which have developed since Confederation, while at the same time preserving inviolate the fundamental principles of responsible self-government which made Confederation possible, and which are the secret of its strength.
2. They must provide for the establishment and the successful operation of the vastly expanded national economy necessary to meet the post-war requirements of the Canadian people, and to that end, they must assure to each of the provinces, revenues adequate to enable them to discharge fully their constitutional responsibilities.

Accordingly we have endeavoured to appraise the extent to which the Dominion's present proposals would accomplish, or fail to accomplish, this two-fold purpose. Recognizing our responsibility in this matter, and knowing that the Dominion officials for the same reason desire from the government of each province, a frank statement of their conclusions, I wish to present five points on which we find ourselves in disagreement with the Dominion's proposals, and the reasons why we maintain, if implemented in their present form, they would not, and, in fact, could not, accomplish the two fundamental purposes to

which I have referred. In conjunction with each criticism of the Dominion's proposals I wish to submit amendments or alternative proposals which, if adopted and implemented, will in our opinion remove the objections raised.

A. The Dominion's proposals are palliative rather than remedial, and their approach to the problem of economic insecurity is curative rather than preventative.

This objection is not raised in any sense as idle criticism. It is raised because it deals with a matter that above all others is fundamental to the success of any Dominion-Provincial arrangement which has as its purpose the establishment and preservation of a satisfactory post-war economy.

The Dominion's present proposals are predicated on the theory that the problems of inadequate individual incomes and inadequate government revenues can be solved by a process of redistribution. They fail to give recognition to the basic fact that the complete monetization of the entire national production is necessary before a redistribution of the national income can ensure an economy in which standards of living and of social services will be limited only by the extent of our national production instead of by the amount of money obtainable by individuals and governments.

The pre-war depression demonstrated the disastrous consequences of failure to monetize a large portion of our national production. The goods which accumulated because of the chronic shortage of purchasing power, naturally curtailed further production, which in turn resulted in wholesale unemployment.

It is imperative that we take the steps necessary to prevent a repetition of that situation in our post-war economy. It cannot be prevented by the redistribution of our national income among individuals and governments, unless that national income represents the complete monetization of our entire national production, plus our imports, less our exports. Furthermore the Dominion's proposals with respect to the timing of public investment, represent a curative rather than a preventative approach to the problem. To defer public works projects until unemployment develops, and to initiate Government programs to "prime the pump" only after signs of depression prove that it has stopped functioning and that the downward cycle already has begun, obviously is unsound. Such a policy pre-supposes failure to prevent depression, and gives endorsement of the use of economic necessity to force men into government relief labour.

The Government of Alberta, therefore, proposes the following amendments to the Dominion's proposals:—

1. That the proposals be amended to provide that the Dominion government will guarantee the complete monetization of the entire national production by expanding the national credit through the Bank of Canada, as, when, and to the extent necessary to maintain a constant balance between the aggregate of consumer purchasing power, and the aggregate normal price value of all goods available for consumption.
2. That the new financial credits thus created will be used by the Dominion government:—
 - (a) to supplement the earned income of the Canadian people in a manner, and to an extent sufficient to ensure an opportunity for all to obtain a secure standard of living.
 - (b) To supplement the revenues of the Dominion and the Provincial governments, to enable them to discharge fully their constitutional responsibilities without the continuation of excessive taxation and further pyramiding of public debt.

3. That the Dominion's policy with respect to timing be altered to provide for the immediate initiation and progressive expansion of government projects and measures which distribute purchasing power as a practicable preventative of depression.

B. In the Dominion's present proposals the fiscal aid to the provinces is inadequate. The per capita grant is insufficient to meet post-war requirements, and the financial arrangements with respect to specific social services are too restricted and too rigid in their application.

The fact that the irreducible minimum of the per capita grant in the case of Alberta is approximately \$2,800,000 more than our pre-war income from the sources of revenue we are asked to give up, is not a true measure of its fairness or of its adequacy. As a young province, rich in resources as yet largely undeveloped, we can properly anticipate very substantial increases in revenue from corporation tax and income tax in the normal course of our internal development. The fact that the pre-war revenue from such sources in the case of two of the provinces exceeded the amount provided as compensation by the proposed per capita grant, is an indication that other provinces not yet in that position, may nevertheless be giving up potential revenues substantially greater than the per capita compensation they would receive in return. This certainly is true in the case of Alberta.

But of even greater practical and immediate importance is the fact that the increased revenue we would receive at least temporarily under the per capita grant, even taking into consideration the wartime expansion of the national production, is insufficient to put the Province in a financial position to discharge its responsibilities in an adequate program of post-war rehabilitation and development.

If we are to pay our share of the costs of adequate post-war social services, if we are to assume a greater portion of the cost of education, to relieve our municipalities of an excessive burden of taxation on real estate, and if we are to do our part in carrying through an adequate post-war program of public works, irrigation, and rural electrification, we must be assured of a substantially greater increase in our public revenues than that provided by the proposed per capita grant. Furthermore the Dominion's proposals for assuming and/or sharing the cost of various specific social services are too restricted in their application. They make no provision for Dominion aid in meeting the steadily increasing ordinary costs of education, or the capital costs of adequate educational facilities such as Technical Institutes, Vocational Training Schools, Agricultural Colleges and Universities. The provision for Old Age Pensions is inadequate to meet the minimum needs of thousands of our aged citizens. The definition of "unemployed employables" is unsatisfactory, and no provision is made for Dominion assistance in cases of necessity for those who were self-employed, such as farmers, fishermen, or any others who operated a business of their own. Provision for those unable to find gainful employment is inadequate.

To remove these disabilities the Government of Alberta makes the following specific proposals:—

1. The Fiscal grant to the Provinces should be increased to an irreducible minimum of \$16.00 per capita, based on the population as at 1941, and increased in proportion to any increase in the gross value of the annual national production, as compared with that of 1941.
2. The Dominion should make a substantial contribution towards defraying the capital costs of education.

3. The Dominion's proposals with respect to Old Age Pensions should be amended, to provide that the Dominion will assume the entire cost of Old Age Pensions, commencing at 65 years, and such pensions should be increased sufficiently to ensure a secure standard of living for these aged citizens.
4. The definition of "unemployed employables" should be clarified and the Dominion should assume not only the entire cost of providing adequately for "unemployed employables", but also for those previously self-employed who, through circumstances beyond their control, become in need of assistance.
5. The proposed agreement should embody a definite undertaking on the part of the Dominion government that for the duration of the agreement it will not enter any new fields of direct taxation other than those specified in the agreement and that it will not increase rates of taxation in those fields it now occupies in excess of the rates prevailing at the time the agreement becomes effective.

C. The Dominion's proposals, if implemented in their present form, would seriously impinge on the basic principles of responsible self-government.

It is an irrefutable fact that the government which controls the incidence of taxation, controls to a large degree, the economy of any province or country. This is especially true of direct taxation in its application to corporations whose business relates directly to the industrial development and commercial life of the community. This is undoubtedly one of the reasons why the Fathers of Confederation in their endeavour to ensure the maximum measure of responsible self-government to the respective provinces allotted to the Provincial Governments the constitutional right to impose direct taxation on individuals and businesses operating within their boundaries, and therefore forming an integral part of their internal economy.

The Dominion's request for the exclusive right to control the incidence of taxation, particularly as it relates to corporations, whatever arguments may be advanced in favour of such an arrangement, cannot be regarded as other than a violation of a fundamental principle of responsible self-government within the provinces thus deprived of one of their most effective constitutional means of controlling the development and operation of their internal economy.

Likewise the Dominion's present proposals with respect to social services and public investment would further seriously interfere with responsible self-government within the provinces, in that the Dominion's financial assistance is conditional upon the provinces agreeing to those particular services and projects which the Dominion approves, and implementing them in accordance with the procedure the Dominion prescribes.

This would mean in effect, that the citizens of the respective provinces would not be free to decide for themselves, the nature and form of the particular social services and works projects they desire, and the order of their priority. While theoretically they would still possess this right, it would be nullified by their inability to finance adequate social services and public works projects without Dominion aid, and the fact that the Dominion's participation would be conditional upon their accepting the program the Dominion prescribed.

I submit in all seriousness that the preservation of effective self-government is absolutely necessary if we are to retain in Canada a functioning democracy; if we are to establish sound and enduring Dominion-Provincial relations, and if we are to have a post-war society in which the people themselves will exercise effective control over the operation of their economy and the management of their public affairs.

Accordingly, the Government of Alberta maintains that the following three alterations in the Dominion's proposals are necessary:—

1. The proposed financial arrangements should be amended to leave with the provinces the right to impose corporation tax, with the understanding that corporation tax imposed by a province shall be deductible from corporation tax imposed by the Dominion, and with the further understanding that the amount of corporation tax collected annually by any province exercising this right, shall be deducted from the annual per capita grant paid to that province by the Dominion.
2. That the provinces be given the right to impose a retail turnover tax and/or a production tax on natural resources alienated from the crown.
3. In lieu of assuming directly its share of jointly provided specific social services, public investment projects, etc., the Dominion Government should pay to each province an unconditional supplementary annual cash grant, equivalent to what it would cost the Dominion Government to implement in each province the Dominion's proposals with respect to jointly provided specific social services, public investment projects, etc.

The adoption and implementation of these recommendations will not interfere with the purpose or spirit of the Dominion's proposals. They will not cost the Dominion Treasury any more than is otherwise proposed, but they will remove a very dangerous aspect and obvious weakness of the Dominion's present proposals, by preserving the basic principles of democratic responsible self-government, and the effective control by the citizens of each province over their internal economy.

D. The Dominion's proposals make no provision for dealing with a number of important and urgent matters which bear directly on Dominion-Provincial relations, and on the present and future economy of the Provinces and the Dominion as a whole.

The success of medium and long-range post-war programs as suggested in the Dominion's proposals, will be seriously jeopardized if effective steps are not taken to deal satisfactorily with the important and urgent matters of the immediate present.

Since the cessation of hostilities too many bottlenecks already have developed in the rehabilitation of men now returning in large numbers from the armed forces. Perhaps the most serious of these from the standpoint of the returning men, is the ineffectiveness of the measures employed thus far to provide suitable housing accommodation for veterans and their families. Despite frequent assurances to the contrary, the fact remains that housing facilities provided thus far, are hopelessly inadequate to ensure even temporary accommodation for those already returned, to say nothing of a reserve to meet the needs of the thousands more to follow.

While the rehabilitation of men from the armed forces is primarily a Dominion responsibility, the consequences of this unpreparedness is of equal concern to every provincial and municipal government in Canada. The Dominion's proposals give no undertaking of immediate effective Dominion action to deal with this situation, nor do they provide machinery for co-ordinated and co-operative effort on the part of all governments to remove the bottlenecks and get the job done.

A similar situation prevails with respect to a number of other important matters which bear directly on the immediate and future post-war economy of the various provinces and the Dominion as a whole. In this category may be listed such matters as:—

- (a) The provisions of Bill No. 15 before the House of Commons, and the whole question of the continuation or the removal of over-riding Dominion wartime measures and controls.
- (b) The early review and definite determination of constitutional responsibilities as between the Dominion and the Provincial Governments.
- (c) The early determining of a post-war immigration policy.
- (d) Matters of particular and urgent importance to certain provinces:—
 - (i) Revision of the Canadian freight rate structure.
 - (ii) Adjustment of Provincial Treasury Bills held by the Dominion; School Lands Funds; Natural Resources Awards, etc.

To deal with these matters of urgent importance the Government of Alberta requests:—

1. That the Dominion institute immediately a government subsidized national program of low-cost homes suitable to meet the reasonable requirements of returned men and their families, and that the construction of such homes be assured absolute and effective priorities on materials and man-power over all other construction, until the needs of returning men and their families have been met.
2. That a standing committee or committees of representatives of the Dominion and the Provinces, be set up to review immediately matters of urgent importance not covered in the Dominion's proposals, which committees should then recommend effective action to deal with the matters referred to them.

E. The Dominion's proposals as at present drafted, make no satisfactory provision for the termination of the agreements between the Dominion and the provinces, if after trial, one or more of the provinces desire to be released from further participation.

It is but just and right, that a province being asked to surrender voluntarily some of its most important fields of revenue, and a measure of its local autonomy, should be given adequate safeguards to protect the constitutional rights of its people, if after a fair trial, they decide against further participation in such an arrangement.

It is an inalienable right of the people of each province to be free at all times to make their own decision in a matter of this kind, and no agreement would be tolerated that by its contents or its omissions puts them in a position where it would be impossible for them to make their decision effective.

If the arrangement embodied in the agreement gives them the results they want, obviously they would support its continuation. If it does not give the results the people want, it has failed in its purpose and under such circumstances the people of a province should not be penalized in any way for deciding they want it discontinued.

To ensure this proper safeguard of the people's democratic rights, the Government of Alberta, requests that the following provisions be embodied in the Dominion's proposals:—

1. Any province may terminate its agreement with the Dominion by giving twelve months' notice, it being understood, however, that the agreement shall continue in force for a minimum trial period of three years.

2. The people of any province which terminates its agreement, shall be eligible to deduct from Dominion taxation in those fields restored to the Province, an amount equal to the provincial tax thereafter levied in those fields.
3. The amount of the annual per capita grant paid to the province by the Dominion, shall, upon the termination of the agreement, be reduced by the total amount collected by that province from those fields of revenue restored by reason of such termination.

In conclusion may I emphasize that the objections herein raised to the Dominion's proposals in their present form, are not raised for the purpose of obstructing or rendering difficult the speedy and successful conclusion of a satisfactory working arrangement between the Dominion and the provinces.

Rather it is because of the extreme importance we attach to such an arrangement, both as a basis for strong and enduring Dominion-Provincial relations, and as a solid foundation upon which to build our post-war economy, that we have pointed out the features which we are convinced would defeat that end, and have presented the amendments which we regard as fundamental and necessary, before we can give our conscientious approval to an agreement of the nature proposed.

DOMINION-PROVINCIAL CONFERENCE
CO-ORDINATING COMMITTEE

PRELIMINARY STATEMENT OF
PROVINCE OF NOVA SCOTIA

NOVEMBER 28, 1945

November 28, 1945.

PRELIMINARY STATEMENT OF PROVINCE OF NOVA SCOTIA

I had not the advantage of being present at the Dominion-Provincial Conference held in August of this year. I have, however, read the reports of the Conference and other relevant material, and I have discussed the subject with those of my colleagues who were here at the time.

Since the August meeting the Government of Nova Scotia has given study to the Dominion Government proposals. There are certain features of the Dominion proposals on which we should like a fuller explanation or declaration of intention by the Dominion Government than has been given.

We come here to consider and discuss with representatives of the Dominion and the other provinces, ways and means by which the governmental machinery in Canada can be made to work more effectively. We are prepared to co-operate in every proper way in any effort towards this great end.

In a matter of such consequence, there should be the most complete frankness on all sides.

In the first place, let me say that I like to see things called by their right names, and I do not think the name given to this Conference is accurately descriptive. The Conference is called a Dominion-Provincial Conference on Reconstruction. Surely it is more than that! Reconstruction is a short term undertaking, whereas we are discussing matters whose effects may last for many years, and perhaps forever.

The next question, which I have to ask myself, and on which I should like some enlightenment is, whither are we tending? I think that the Dominion Government should make a frank statement on this point.

It is not enough to say that the road to genuine provincial autonomy is the road of financial independence. That proposition is perhaps debatable as it stands, and it is yet more debatable when the true nature of the independence is considered.

The Dominion Government proposals suggest that the Provinces should vacate completely the fields of Income Tax, Corporation Tax and Succession Duties. The Dominion Government at the moment also collects some revenue from gasoline sales; from amusement taxes and from a tax on the users of electricity. Does the Dominion Government intend to remain in these last mentioned fields?

Will the Dominion later on ask the Provinces to vacate still other fields of taxation, as these fields become fruitful and inviting, and as the Dominion Government wishes to embark on new ventures, desirable they may be, beneficial they may be, but ventures nevertheless as to the institution of which the Provinces have never been consulted.

If that is to happen, the ultimate end that we shall reach must be evident to all. That end will be the elimination of the Provinces as a factor in our Canadian political and constitutional life.

It has to be remembered that in 1867 the powers of taxation of the Dominion and the Provinces were the same as now, but the sources of taxation have changed greatly in their nature in the eighty years between. At Confederation, direct taxation was not considered to be either an attractive or fertile field. Now by the evolution of time, and by the economic changes that have taken place in our country, this field offers the most succulent of all grazing for the Federal tax gatherers.

For fifty years the Dominion respected the principle that it should remain in the field of indirect taxation, and that the Provinces should secure their necessary revenues by direct taxation and by Federal subsidies. Then in 1917

during the First Great War, the Dominion Government for the first time entered what had hitherto been regarded as purely provincial preserves when it imposed an Income Tax. The imposition of this tax was not looked upon with favour by the Provinces. Undoubtedly, had it not been for the existence of a state of war, a vigorous fight against the Dominion would have been made by the Provinces. Be that as it may, the fact remains that the Dominion having once entered the field has never relinquished it, and indeed it has become the most fruitful of all Federal taxation fields.

The Provinces are now asked to give up their right to collect Income Taxes, Corporation Taxes and Succession Duties. Many people are asking themselves if this is the beginning of a process, conscious or unconscious which will lessen or extinguish the power of the Provinces and lead to the creation of a unitary state.

To be strictly logical it seems to me that we should make constitutional changes first and taxation arrangements afterward. This is indeed more than a matter of logic. It is the essence, for it is basic to a Federal system that the Constitution shall divide the responsibilities of government first, and arm the responsible units with the legal power and sources of revenue appropriate to that division. Important as financial matters are, they are but means to the discharge of the allotted responsibilities and not ends in themselves. Accordingly there is reason to doubt whether the remedies for the present inadequacies in our system should be sought or can be found in proposals of a purely fiscal nature which ignore other matters affecting the efficiency of all governments.

When the Sirois Commission sat, the Nova Scotia Government of that day intimated its willingness to have the British North America Act amended so that the Provinces could delegate powers to the Dominion, and the Dominion could delegate powers to the Provinces. The Government of Nova Scotia still adheres to that view, and we are prepared to enter into discussion with the Dominion along that line.

I should like to see the agreement tried for a definite period—not a long period—of years, and then reconsidered in the light of experience. I realize, however, that once a Province enters into an agreement and embarks on the courses or measures mentioned in the Dominion proposals, it will be extremely difficult if not impossible for that Province to leave the field. There is all the more necessity therefore for the exercise of care and caution at this time.

It has to be remembered that in 1937 the Dominion Government appointed a Commission to investigate the whole problem of Dominion-Provincial relations, and that Commission in 1940 brought in what has now become known as the Sirois or the Rowell-Sirois Report. The Commission was composed of five distinguished Canadians, who held sittings in each of the Provinces of Canada, heard representatives from Provincial Governments, from Municipal bodies, Boards of Trade, Chambers of Commerce and a great number of other groups and organizations throughout Canada. The proposals of the Sirois Commission were, it would seem, generally acceptable to the Dominion Government, for in a letter of November 2, 1940, inviting the Provincial Premiers to a conference to consider the Sirois Report, the Prime Minister of Canada said:—

We believe that no time should be lost in arranging for a Conference with the Provinces, in order to secure, if possible, the adoption of the Commission's recommendations.

It is the view of the government that adoption of the Commission's recommendations is necessary to put our country in a position to pursue a policy which will achieve the maximum war effort and, at the same time, to lay a sound foundation for post-war reconstruction.

It is true that the Conference which was held in response to the Prime Minister's request dissolved without coming to any definite decision, but I should like to know why the principles and conclusion of the Sirois Report, framed after such careful study, framed by a Commission appointed by the Dominion Government, approved by the Dominion Government, should now be disregarded and abandoned by that Government.

The Dominion proposals have a good first sight appearance. I must say, though, that, on analysis, this first favourable impression is not always fully maintained.

At that moment Nova Scotia would receive better financial terms under the Dominion proposals than before. But we of the Provinces must try to look ahead for a period and determine what the long term effect of these proposals will be—what will be the result of our giving up what are now rich taxation fields, while at the same time we must retain the main burden of certain social services such as health and education which are of their nature expansive and consequently increasingly expensive to maintain. Will the Dominion grants and the Dominion assumption of certain responsibilities in these fields prove an adequate offset to what we are asked to give up? These are questions that, as representatives of the Provinces, we must ask ourselves.

The representatives of the Dominion Government at this Conference will understand that we do not ask these questions in any fractious or vindictive spirit. We ask them because they are of the greatest importance, because we are now endeavouring to set a pattern for our lives and the lives of those who will come after us.

One newspaper that I saw this morning said that there was a revolt by Provincial Premiers against the Dominion. I have seen no signs of a revolt—in the correct sense of that word. I have heard much discussion, many questions—some of them pointed. That is all to the good, in my opinion. Let us have questions, let us have explanations, let us have a searching examination looking to the future as well as to the present, and let us hope that at the end of this Conference ground may be reached on which the Dominion and the Provinces can take a common stand that will be beneficial to both parties, and what is far more important, a stand that will benefit the people of this country, whose servants we all are.

In addition to these general observations, I should like to put before the Conference certain specific questions.

(1) Will the Dominion give now the guarantee that it will go no further into the field of direct taxation than these present proposals suggest or, to put it in another way, what fields of taxation will be left to the Provinces exclusively?

(2) Will the Dominion withdraw from these fields of taxation which it entered during the war period, and which were previously occupied by the Provinces exclusively; for example, the gasoline, amusement, and electricity tax fields.

(3) Will the Dominion say that it will not impose direct or indirect taxes of such severity as will seriously hamper the Provinces in their attempts to collect revenues in these taxation areas still left open to them? As an example, let me take a commodity from which the Dominion and the Provinces derive revenue, and that is liquor. If the Dominion makes its customs and excise taxes on liquor sufficiently high the result will be that the Provinces' taxing power on the sale of liquor will become of little value.

(4) Did the Dominion Government consider alternatives, and if so what alternatives, to those contained in its proposals as set forth at the August Conference?

(5) Why was the figure of \$12.00 per head adopted, and what were the merits of this plan as contrasted with other possible plans, such as for example, the plan of pooling Income Taxes, Corporation Taxes and Succession Duties, and the awarding of certain percentage of these taxes to each of the Provinces, or such as the plan proposed by the Sirois Report.

(6) Does the proposed payment of \$12.00 per capita to the Provinces take into consideration increases in population as well as increases in National Production?

(7) What is the type of provincial works on which the Dominion will make a fifty per cent or greater contribution as suggested by Mr. Howe yesterday?

(8) What are considered national undertakings under "Provision of national transportation and communication facilities", referred to on page 24, para. 6, Dominion Proposals?

(9) Is the suggested program with regard to Health Insurance final and conclusive or will the Dominion consider paying a definite percentage, regardless of cost, instead of the limited contribution, suggested in the Dominion proposals?

(10) Can a Province accept the per capita grant of \$12.00 from the Dominion without implementing the Health Insurance program?

(11) Can the first stage of the Health Insurance program be implemented in part—hospitalization only, for instance?

(12) Is there any contribution by the Dominion to the construction of hospitals beyond the 20 per cent mentioned on page 26 and the loans mentioned on page 36?

See Dominion proposals, page 25, para. 4(ii)

Assistance to provide rapid increase in hospital facilities required for inauguration of health insurance, as outlined in National Health Program.

(13) Is the Dominion proposal to assume the entire cost of Old Age Pensions to persons over 70 predicated upon the Province's assuming 50 per cent of the cost of Old Age Pensions to persons between 65 and 69?

REPLY
BY DOMINION GOVERNMENT
TO QUESTIONS RAISED IN THE
PRELIMINARY STATEMENT OF
PROVINCE OF NOVA SCOTIA

December 5, 1945

December 5, 1945.

REPLY BY DOMINION GOVERNMENT TO QUESTIONS RAISED IN THE PRELIMINARY STATEMENT OF PROVINCE OF NOVA SCOTIA

These answers are based on the assumption of the acceptance of the present financial proposals.

1. *Question*: "Will the Dominion give now the guarantee that it will go no further into the field of direct taxation than these present proposals, or to put it another way, what fields of taxation will be left to the Provinces exclusively?"

The Dominion is not willing to give general commitments which might hamper, in unexpected ways, future budgetary policy. The Dominion does not contemplate entering such fields as the taxation of real property or the taxation of motor vehicles in the hands of the user,—the examples suggested by Mr. Macdonald.

2. *Question*: "Will the Dominion withdraw from those fields of taxation which it entered during the war period and which were previously occupied by the Provinces exclusively; for example, the gasoline, amusement and electricity tax fields?"

Subject to the preceding answer, the Dominion is willing to consider proposals for specific undertakings on such taxes in the light of the other financial arrangements to be agreed and in the light of the extent of the responsibilities which the Dominion may be asked to assume. Such undertakings, if agreed, would be limited to the duration of the over-all agreement.

3. *Question*: "Will the Dominion say that it will not impose direct or indirect taxes of such severity as will seriously hamper the Provinces in their attempts to collect revenues in these taxation areas still left open to them? e.g. liquor."

It will certainly be no part of Dominion policy to hamper the Provinces in financing their own requirements. While we would not be willing to give undertakings which would involve consultation with the Provinces in the framing of Dominion budgets, the Dominion would be willing to consider proposals for specific undertakings as described in the answer to 2 above and in the light of the same considerations.

4. *Question*: "Did the Dominion Government consider alternatives, and if so what alternatives, to those contained in its proposals as set forth at the August Conference?"

The Dominion considered various alternatives, including those mentioned in the succeeding question, but adopted the proposals put forward as being the fairest and most workable.

5. *Question*: "Why was the figure of \$12.00 per head adopted and what were the merits of this plan as contrasted with other possible plans, such, for example, as the plan of pooling Income Taxes, Corporation Taxes and Succession Duties and the awarding of a certain percentage of these taxes to each of the Provinces or such as the plan proposed by the Sirois Report?"

Having in mind the desirability of assistance to those Provinces whose financial resources are less ample than those of others, it was considered that a per capita grant would yield results which would be equitable and had the great advantage of simplicity and definiteness.

The figure of \$12.00 per head is, it should be emphasized, the minimum of such grants, and assures the Provinces as a whole of a minimum greater than the revenues derived in the base year from the taxes they are asked to give up.

6. *Question*: "Does the proposed payment of \$12.00 per capita to the Provinces take into consideration increases in population as well as increases in National Production?"

Yes.

7. *Question*: "What is the type of provincial works on which the Dominion will make a fifty per cent or greater contribution as suggested by Mr. Howe yesterday?"

Dominion contribution up to as much as fifty per cent will be considered for the types of activities listed on pages 24 and 25 of the Dominion proposals under (b) 1, 2, 3 and 4, subject to specific agreements in each case.

8. *Question*: "What are considered national undertakings under "Provision of national transportation and communication facilities", referred to on page 24, para. 6, Dominion proposals?"

As set forth in paragraph 6 subject to further development in Committee.

9. *Question*: "Is the suggested program with regard to health insurance final and conclusive or will the Dominion consider paying a definite percentage, regardless of cost, instead of the limited contribution, suggested in the Dominion proposals?"

The limited contribution is regarded as necessary, as otherwise the federal government would be committing itself to unknown amounts of expenditure. As the control of the expenditure would be entirely in the hands of the provincial governments it would seem reasonable that expenditures over an amount estimated to be sufficient should be at the expense of the provincial government. The Dominion government is further prepared to discuss the accuracy of the estimates so as to arrive at a figure which would be considered fair, and it is of course proposed that after a period the Dominion's share will be based on the average actual cost.

10. *Question*: "Can a Province accept the per capita grant of \$12.00 from the Dominion without implementing the health insurance program?"

The Dominion put forward the health insurance program as desirable for the welfare of both the Canadian people and the economy of the country. The rate of implementation, however, and alternative proposals are a matter for discussion.

11. *Question*: "Can the first stage of the health insurance program be implemented in part—hospitalization only, for instance?"

Yes. The proposal provides that the first stage may be implemented by steps in each province in accordance with agreement with each province and the Dominion.

12. *Question*: "Is there any contribution by the Dominion to the construction of hospitals beyond the 20% mentioned on page 26 and the loans mentioned on page 36? See Dominion proposals, page 25, para. 4(ii), "Assistance to provide rapid increase in hospital facilities required for inauguration of health insurance, as outlined in national health program."

In addition to the 20% timing grant, which would apply to whatever construction was accepted by the Dominion as subject to timing and carried out in accordance with the over-all timing schedule, and in addition to the advances proposed on page 36 of the Dominion proposals, there is also provision for a planning grant equal to 50% of the cost of planning projects accepted by the Dominion as subject to timing.

13. *Question*: "Is the Dominion proposal to assume the entire cost of old age pensions to persons over 70 predicated upon the Province's assuming 50% of the cost of old age pensions to persons between 65 and 69?"

No. It is optional for any province to enter an old age assistance plan for the 65 to 69 group and secure the assistance offered by the Dominion.

It should be made clear that the specific proposals made by the Dominion, and the replies given here, may be modified in the discussions which take place, or may have to be modified if agreement on other proposals proves to be impossible.

REPLIES BY
DOMINION GOVERNMENT
TO QUESTIONS RAISED BY
HON. A. J. HOOKE, OF THE
PROVINCE OF ALBERTA

December 29, 1945

December 29, 1945.

REPLIES BY DOMINION GOVERNMENT TO QUESTIONS RAISED
BY HON. A. J. HOOKE OF THE PROVINCE OF ALBERTA

HEALTH

1. *Question: Is it compulsory for the provinces to provide the complete health insurance scheme as outlined in the Dominion's proposals, or can they use their own judgments as to how far the scheme may be put into effect?*

The Dominion put forward the health insurance program as desirable for the welfare of both the Canadian people and the economy of the country. The services to be provided, however, rate of implementation, and any alternative proposals are a matter for discussion.

2. *Question: Will the Dominion government guarantee to pay 60 per cent of the cost of hospital and medical service instead of limiting their grants to 60 per cent of their estimated costs?*

Because the Dominion government would have no control of costs and because provision has been made for revising estimates on the basis of each three years' experience, the federal government's proposal is for a contribution limited for the initial period to 60 per cent of the estimated costs.

3. *Question: May the province in drafting its hospitalization and medical services plan arrange to charge individuals a small fee to prevent the abuse of these services?*

The proposals of the Dominion government do not specify how the provincial share should be raised and do not preclude the charging of individuals a small fee to prevent abuse of health services as long as the principle of complete services being available to everyone independently of his ability to pay for them is maintained.

4. *Question: May a province use the entire general health grant of 35c per capita for disease prevention service?*

The general health grant may be used for any particular purpose by the provincial government providing that the general health services are of a standard and completeness which will meet the requirements as agreed on.

5. *Question: Will the Dominion government guarantee to make their grants for tuberculosis and mental health services a certain percentage of the actual cost? If so, what percentage?*

The Dominion proposal is for grants of fixed amounts, determined by factors set forth on page 34 of the Dominion proposals, limited to 25 per cent and 20 per cent respectively of the amounts spent on tuberculosis and mental health services by the provincial and local governments but, as indicated in the Committee discussions at Ottawa, the Dominion would be prepared to give consideration to possible revisions of the percentages and over-all amounts proposed.

6. *Question: As health service is a definite responsibility of the provinces, what guarantee will the Dominion give that the program will be carried out and all grants continued once an agreement has been entered into?*

While technically under existing constitutional practice one parliament cannot bind another, the Dominion proposals are made in good faith as a continuing arrangement.

OLD AGE PENSIONS

1. *Question: What provision does the Dominion government propose making for hospitalization and medical care of old age pensioners?*

None, other than that which would be provided for under health insurance.

2. *Question: Will an old age pensioner continue to receive his cheque while confined to hospital for an extended period of time, if the Dominion health proposals are put into effect?*

Yes, in so far as pensioners under the National Old Age Pension scheme are concerned.

3. *Question: What are arguments used by the Dominion government in purporting to treat those between the ages of 65 and 69 differently than those 70 years and over, keeping in mind the fact that age 65 is generally recognized across Canada as the age retirement limit.*

There is reason to doubt the assumption implied in question (3), that "age 65 is generally recognized across Canada as the age retirement limit". The fact is that while many private retirement plans are coming into operation, the number of persons provided for under these schemes is still a very small minority of the population. The 1941 Census figures show that something like 70 per cent of persons between 65 and 70 years of age are still classified as "gainfully occupied". While it may quite properly be assumed, with the support of such statistical information as we have available, that the majority of persons 70 years of age and over have retired from gainful occupation, the reverse is true of persons in the 65 to 69 age group.

There is also of course, the factor of cost involved. The difference between means test pensions to persons in the 65 to 69 age group and universal pensions represents an item of about \$117 million annually to the Dominion. The total cost of universal pensions 65 and over would run to \$338 million annually as contrasted with \$200 million annually for those 70 and over. The Dominion is endeavouring to maintain a proper balance in its social service expenditures between the various age groups involved and between the various types of service required.

Incidentally, a substantial number of wage earners in the age group 65 and over, who are still employable and who become idle, would qualify for unemployment assistance under the Dominion's proposals and would not, therefore, be a burden on the provinces for a portion of the 65 to 69 period at least.

4. *Question: Will the Dominion government undertake to bear the administrative costs of old age pensions in both categories 65-69 and 70 years and over?*

The Dominion will bear full administrative costs of the National Old Age pension scheme proposed for those 70 and over but is only undertaking to contribute 50 per cent of the cost of the assistance paid by any province which wishes to introduce a 65-69 year old scheme. The people in this latter age group are, of course, now entirely the responsibility of the provincial government and its municipalities.

RELIEF AND UNEMPLOYMENT

1. *Question: What is the federal government's definition of "unemployed", (b) of "unemployable"?*

While no specific definitions of "unemployed" and "unemployable" have been set down by the federal government, the general approach has been along the lines of the requirements of the Unemployment Insurance Act, with the further provision that in the absence of more specific evidence of unemploya-

bility, a person who has remained on assistance for a period of two years, without being able to obtain or keep employment other than of a casual nature, would be declared ineligible and transferred to the responsibility of the provincial government and municipality.

This latter is not designed with any idea of transferring responsibility for unemployables to the provinces, but merely to set some standard by which employability could be measured. It has been suggested that employment of, say, a month at the end of two years on unemployment assistance would re-establish eligibility.

2. Question: What assistance does the federal government propose to give to anyone not eligible for unemployment insurance who becomes unemployed, e.g., a self-employed person?

The federal proposals on unemployment assistance do not cover self-employed persons, although various other measures, such as guaranteed floor prices on farm products, export credits, P.F.A.A., P.F.R.A., family allowances, and the proposed National Old Age Pension and Health Insurance schemes, have been devised to assist farmers.

3. Question: What factors does the federal government propose to take into consideration regarding "timed public works" for which it will pay 20 per cent of cost? (b) Will not its decisions on the above occasionally have an adverse effect upon the relief situation?

The prime factor to be taken into consideration regarding "timed public works" will be the level of unemployment. It would only be when it was decided not to take action that it might have an adverse effect upon the relief situation.

4. Question: How will the cost of health insurance for an unemployed person be borne?

Under a contributory health insurance scheme contributions in respect of an unemployed person would be borne by the province, which might, of course, in turn charge the appropriate municipality.

5. Question: As the Municipal Assistance Guarantee Act proved most helpful to the municipalities during the depression, will the federal government consider its reinstatement as a means of financing self-liquidating projects?

No consideration has been given to this as part of the present proposals.

The Municipal Improvements Assistance Act was passed in 1939 and was put into effect at a time when there was still substantial unemployment and it was brought in also at the end of a long period of nearly ten years in which municipalities had been under heavy expense and were, in many cases, not in a position to finance necessary projects. Under the Act loans were made available at two per cent for approved self liquidating projects in cases where the loan was guaranteed by the province. The Act passed out of active use during the war.

The Minister of Finance has taken the view that the present circumstances are not such as to justify him in bringing this legislation into activity again. The first concern of municipalities in developing public improvement projects at this time is not a condition of unemployment but the needs of the municipality for services which it has been impossible to provide during the war. Most municipalities have had six years of favourable financial experience and are not now in the position in which they were in 1939, entirely shut off from the possibility of borrowing on their own credit for the provision of services which their citizens required.

GENERAL

1. *Question: What assurance will the Dominion give that they will make no further invasion into provincial fields of taxation?*

The Dominion is not willing to give general commitments which might hamper in unexpected ways future budgetary policy. As said in the reply to Mr. Macdonald's questions, however, the Dominion is willing to consider proposals for specific undertakings in relation to specific taxes in the light of the other financial arrangements to be made and in the light of the extent of the responsibilities which the Dominion may assume. Such undertakings, if agreed to, would be limited to the duration of the over-all agreement.

2. *Question: In the event of no agreement being reached regarding the Dominion proposals will the federal government return to the provinces the fields of taxation it has entered which were previously enjoyed by the provinces only?*

In the event of no agreement being reached, the federal government will reduce corporation and personal income taxes as undertaken in the 1941 tax agreement.

3. *Question: Can the Dominion government explain how any province can carry out its obligations if the major sources of revenue left to them are based upon the people's willingness to spend rather than upon the province's power to collect, e.g., liquor revenues, gasoline taxes?*

This question can only be answered by a review of provincial estimates, prepared on various assumptions of national production, and taking into account the payments which the Dominion proposes to make to the provinces, the contributions it proposes to make to provincial expenditures, and the general policies which it proposes to maintain employment and income.

4. *Question: Do not the present Dominion proposals lead to centralization of power in the hands of the federal government at the expense of provincial autonomy?*

The Dominion feels that its proposals strengthen provincial autonomy since the only sound basis for real autonomy is for the provincial governments to be put in a stronger and more secure financial position than before the war, and the proposed Dominion subsidies and the Dominion provision for unemployment assistance will be on an assured basis, known in advance and subject to revision only by agreement.

DOMINION-PROVINCIAL CONFERENCE (1945)

SUBMISSIONS
BY THE GOVERNMENT OF THE
PROVINCE OF ONTARIO

January 8, 1946

January 8, 1946.

DOMINION-PROVINCIAL CONFERENCE (1945)

SUBMISSIONS BY THE GOVERNMENT OF THE PROVINCE OF ONTARIO

The main purpose of the Dominion-Provincial Conference (1945) is to place the Dominion and the provincial governments in the best possible position to use their combined powers for the most effective advancement of the welfare of the people of Canada and the strength of one national economy. In seeking to attain that objective, our constitutional background must be recognized, and the special considerations which greatly affected the form of constitution under which Canada became a nation must always be borne in mind.

In making its submissions to the Conference, the Government of the Province of Ontario proceeds upon the assumption that the future strength of Canada and the welfare of all its people will depend upon the measure of co-ordination and continuing co-operation which can be established between all governments in Canada and the agencies of those governments. While acknowledging that each provincial government owes its primary responsibility to the people of its own province, we fully recognize the dependence of the people of every province on the strength and vigour of the whole nation for their continuing welfare and prosperity. We are also convinced that the strength of our national structure very largely depends upon the strength, independence, and self-reliance with which each provincial government is able to undertake its own allotted tasks. These principles are stated at the outset so that it may be clearly understood that our proposals are made in the belief that they should be equally acceptable in every part of Canada and are in no instance put forward with the thought of giving any special advantage to those who live in the Province of Ontario. The ordinary constitutional relationship between the Dominion and provincial governments has been changed very greatly during the war as the result of the wide powers assumed by the Dominion Government under the War Measures Act and other emergency legislation. In many fields of exclusive provincial jurisdiction, the Dominion Government has taken over full authority. Under the Emergency Transitional Powers Act, the Dominion Government continues to occupy extensive areas of provincial jurisdiction. That being so, the readjustment of legislative authority as between the Dominion and provincial governments will be a progressive and continuing process, and obviously will not be completed in one stage.

The first and most urgent question is the allocation of taxing powers which must follow the termination of the tax agreements of 1942. As the ability of any government to undertake its responsibilities depends upon its power to obtain the revenue required to carry out its responsibilities, the subject of taxing powers as affected by the 1942 agreements will be dealt with first.

On March 27, 1942, the Government of Ontario entered into an agreement with the Government of Canada which provided that, for the duration of hostilities and the next full fiscal year following the year in which hostilities ceased, the Provincial Government would forego its right to impose personal and corporation income taxes in return for fixed annual payments. Similar agreements were entered into between the Government of Canada and the government of each of the other provinces. Hostilities having been declared to have come to an end on September 6, 1945, the agreement between the Government of Canada and the Province of Ontario will terminate automatically on March 31, 1947. Quite apart from other details of taxation and other agreements which may be reached at this Conference, it is essential for the orderly conduct of the

business of government, that the Dominion and provincial governments decide at the earliest possible date what will happen in these two extremely important fields of taxation after the termination of the existing agreements.

Along with other proposals placed before the Conference last August, the Dominion Government proposes that, under a new agreement, the provincial governments continue to remain out of these fields of taxation in return for certain annual payments on a fixed basis. As this involves a fundamental principle, in no way related to the present adequacy or inadequacy of the payments proposed, it is desirable to examine what effect the acceptance of this proposal would have upon the position of the provincial governments and legislatures.

Under Section 92 of the British North America Act, the Provincial Governments were given the right to impose direct taxes for the purpose of carrying out the legislative and administrative responsibilities conferred upon them. Under Section 91, the Dominion Government was given the power to impose any form of taxation for the purpose of carrying out its legislative and administrative duties.

No serious problem arose as a result of this possibility of conflict in taxation until 1917. While it is contended that there is no limitation upon the right of the Dominion Government to impose any form of direct taxation, succeeding Dominion Governments up to that time had confined their taxation to the indirect field, and when it was considered necessary to impose a personal income tax in 1917 because of the demands of war financing, the then Minister of Finance, Sir Thomas White, expressed his regret that it should have become necessary to enter this field, and the expectation at that time clearly was that the Dominion Government would withdraw from it after the war, leaving the field of direct taxation once again, exclusively, to the provinces, as it had been since 1867.

There was very good reason for leaving this field open to the provincial governments. They had been given wide sovereign responsibility in many of the most important fields of legislation affecting the prosperity and welfare of the people of Canada. After all, there is only one group of taxpayers in Canada. They are the combined total of the people who live in the nine provinces, together with a small number of people who live in the northern part of Canada, outside of the organized provincial areas. If the provincial governments were to assume their full responsibility for health, public welfare, education, agriculture, highway construction, lands, forests, mines, labour relations, municipal affairs, and so on, then obviously it would be necessary for them to have the power to impose the taxes necessary to raise the money for the purpose of carrying out those responsibilities, under the supervision and subject to the approval of the provincial legislatures. That principle was accepted without question as a basic necessity for the effective functioning of our Federal System.

When it was proposed in 1942 that the provinces should abandon their two most important sources of direct taxation, this was done with the assurance that it was to be for the duration of the war emergency and only for that period. There were obvious reasons why the provinces could do this for the duration of the war and for the next fiscal year thereafter, which did not apply in time of peace. The provincial governments had stopped all avoidable construction and made it clear that they would curtail development expenditure as much as possible. Under those circumstances, their budgets were established at an approximately fixed level, and annual payments could be computed to provide the necessary revenue within the fixed limits which the provincial governments had themselves determined.

But a very different situation arises with the end of the war. As supplies and manpower become available, it is not only possible but absolutely necessary for the provincial governments to increase their expenditures very greatly if they

are to proceed with development work which is essential for the orderly expansion of production and extended use of all our resources. The amount of money spent in any year on such activity must be measured by the judgment of the members of the provincial legislatures, or they cease to be independent legislative bodies. It is axiomatic that the power to tax is the power to govern. It is for that very reason that there is a standing rule in every parliament and legislature within the British Commonwealth that private members cannot bring in money bills, or present resolutions which would have the effect of increasing the expenditure approved by the government.

If the provincial governments, and in turn the provincial legislatures, were to abandon their most important sources of direct taxation in return for an annual payment on a fixed basis, they would place themselves in a legislative strait-jacket from which they could only escape by abandoning still further powers in return for added payments at some date in the future.

There is much more to be decided at this Conference than the adequacy of the payments proposed by the Dominion Government to meet the financial needs of the provinces for the immediate future. In Ontario, the annual expenditure by the Government on public services of every kind has increased steadily throughout the years. The prosperity of our people has increased also. A large part of the expenditures goes directly to the advancement of production and results in increases in employment. That process will continue. The more highly organized and the more productive any group of people become, the more public services they require to support their daily needs, to increase their opportunities for trade and commerce and generally to gain access to undeveloped resources. If the provincial governments placed themselves in such a position that they were only able to expand their activity with the approval of the Dominion Government, they would become little more than local administrative commissions of the Dominion Government, and the provincial legislatures would cease to possess anything but the form of administrative responsibility.

No matter what the intention may be, the almost inevitable result which would follow the acceptance of such an arrangement would be the ultimate abandonment of the Federal System in favour of a Unitary System of government in Canada. The steady whittling down of provincial rights of taxation would produce a limitation of legislative independence which could only have the effect of rapidly increasing the centralized power of the Dominion Government.

Distinctive Attributes of Federal System

The question to be decided is not merely whether the provincial governments are prepared to abandon their most important taxing powers, with the certainty that it would become necessary for them to abandon still more powers as time goes on—the fundamental question to be determined is whether or not the time has come to abandon the Federal System, in fact if not in name, in favour of a centralized Unitary System of government. It is well therefore to review the distinctive attributes of the true Federal System which Canada adopted in 1867, and to consider the relative advantages of the Federal and Unitary Systems, recognizing the universal desire that Canada face the future with that form of democratic government best suited to its needs and special problems.

Federal government in Canada was established to further the same broad purposes which characterize federalism elsewhere in the world, especially in democratic countries such as the United States and Australia. Profound changes in Canada's national stature and economic position in the world must still be assessed with due regard to those objectives.

The primary and simple purpose of the Fathers of Confederation was to conserve the autonomy of the provinces in local matters, and at the same time create a national government which would promote the common interests of all

provinces and be able to deal with such public business as was of a distinctly national character. Here, as elsewhere, democratic federalism was designed to embrace many in one and one in many. It was not intended, however, to merge local characteristics in one uniform pattern. This simple purpose was precisely stated in the judgment of Lord Watson in *Liquidators of the Maritime Bank vs. Receiver-General of New Brunswick* in the following words:

The object of the Act was neither to weld the provinces into one, nor to subordinate provincial governments to a central authority, but to create a Federal Government in which they should all be represented, entrusted with the exclusive administration of affairs in which they had a common interest, each province retaining its independence and autonomy.

It must be remembered also that there were special considerations in the minds of those who framed the British North America Act which must not be disregarded in reaching a decision to-day, no matter how much the general circumstances throughout Canada have changed. This was stated very clearly as recently as 1932 in the *Aeronautics Case* in the judgment of Lord Sankey as follows:

Inasmuch as the Act embodies a compromise under which the original provinces agreed to federate, it is important to keep in mind that the preservation of the rights of minorities was a condition on which such minorities entered in the federation, and the foundation upon which the whole structure was subsequently erected. The process of interpretation as the years go on ought not to be allowed to dim or to whittle down the provisions of the original contract upon which the federation was founded, nor is it legitimate that any judicial construction of the provisions of Sections 91 and 92 should impose a new and different contract upon the federating bodies.

Those special considerations are still present to-day. Any attempt to disregard them could only result in failure to reach that measure of agreement which is desired by every government represented at this Conference. Federation was made possible in Canada only by the assurance that within its range of legislative competence each provincial legislature would be fully responsible for policy and answerable to its own electorate for the preservation of certain traditional rights and privileges which those provinces were not willing to submit to the overriding authority of a government and parliament in which their own representation would in each instance constitute a minority. The division of legislative competence was made rigid in many fields in order to secure traditional rights from the possibility of usurpation of power by any Dominion Government and parliament no matter what its political complexion might be.

Besides those traditional loyalties, which were a potent factor in determining the particular form of federation adopted by Canada, the architects of Canadian union chose federalism as the form of government most likely to insure efficient administration over the large and sprawling territories which spread from the Atlantic to the Pacific, north of the United States. It is also important to-day to remember that the government leaders from Upper and Lower Canada had practical experience in the preceding twenty-five years in the operation of a legislative union, and in the light of that experience they were the strongest advocates of the administrative superiority of the federal system. They looked upon it as a system which would insure the most intimate relationship between the government and the people and, hence, would be most likely to escape the ills of a centralized and unwieldy bureaucracy. It is significant that they gave to the provincial governments jurisdiction over education, municipal institutions, the development of natural resources, and property and civil rights, thus enabling

the provincial governments to remain responsive to the divers notions, needs and traditions of the people living within their provincial boundaries. Provincial government was to remain a constitutional shield for local democracy in the provincial legislatures and the municipal councils.

This statement of the underlying considerations which led to the adoption of our own particular form of federalism is not intended to convey the suggestion that the British North America Act is beyond all improvement or that we should be hampered in our national development by an outmoded constitution if we became convinced that such were the case. The wisdom of the Fathers of Confederation has been amply demonstrated throughout the past seventy-nine years, but, even so, it is only proper for us to ask ourselves if our constitution has outlived its usefulness and the time has come for us to turn to some other form of constitutional government. Those who remain faithful to old dreams sometimes find that only the dream remains. If the evidence were clear that some other form of democratic government would be better suited to the needs and aspirations of the Canada of to-morrow, then there would be no reason why the consideration of such a fundamental change should be delayed.

Problem of Diverse Conditions

If we were confronted with exactly the same problem as faced the Fathers of Confederation—the writing of a national charter suited to Canada's needs—what form of government would be chosen? Surely we would come to the conclusion that nothing has happened to alter the logic of a federal structure in a state of such area and diversity, although the pace and character of modern economic and social developments, especially the consolidation of economic power, do call for adjustments which will be referred to later. Although they are not economic islands, separate from one another, it still remains true that the provinces constitute, and should continue to constitute, like the states of the American Union in the words of Justice Holmes, "insulated chambers" for legislative experiment, wherein different ideas and attitudes have free scope within the competence of the provincial legislatures.

The provincial governments must cope with the problems of diverse soil, topography, climate, and human sentiment. Indeed, owing to the remarkable advances in scientific technique since 1867, the responsibility of provincial governments in directing the development of natural resources has increased enormously, and in the future will increase still further. The natural resources throughout Canada are so heterogeneous, and the modes of development in different provinces vary so much that administrative supervision in limited areas is essential for their most effective utilization.

What may be prescribed by public policy for the best use of coal and minerals in Nova Scotia may not be equally wise in Alberta. Conservation will necessarily have a different meaning in British Columbia from what it has in Saskatchewan. The problems connected with the production of electric power in Manitoba are very different from those of Quebec. Ontario has large and divers resources in its forests, base metals, precious metals, its lakes, fertile lands and secondary industries. In every province more co-ordinated direction of such resources will be needed in the future, and only provincial administration can effectively provide it because of proximity and immediate interest. In this field, it would appear that there is convincing evidence that the obligations and authority of provincial governments must expand rather than contract.

It is an inescapable fact that the development of all natural resources is fundamental to the economic advancement and improved standard of life for the people in any area. It is also true that the economic life of a province is at the mercy of powerful international forces against which it can never achieve

insulation. Similarly, it is subject to the profound influence on its affairs of the tariff and monetary policies of the Dominion Government. Nevertheless, in a continental state, such as Canada, federalism provides the most flexible administrative system.

None of the provinces is so densely populated that the focusing of public attention upon the affairs of its own government is too seriously hampered. While the areas covered by some of the provinces are very great, the activities of their governments are reasonably close to the people, and for that reason subject to more constant and direct supervision. The legislative ingenuity of a single province is tested in experiment to the advantage of all, without the dangerous consequences which might follow its application to the business and life of the whole nation. Administration can also be readily adjusted to special local circumstances. The leading Canadian provinces are substantial regions in themselves whose needs in many matters of development can only be determined by local thought.

Ontario, with its 412,000 square miles, is considerably larger than Texas, the largest state in the United States, with 265,000 square miles, or California, the second largest, with 158,000. The development of the resources of this huge territory can best be directed by those with personal knowledge of its own problems. Long ago, Lord Bryce pointed out that federalism may, to some extent, diminish the collective force of a nation, but it diminishes also the risks to which size and internal diversities expose it, especially the risks of a centralized administration of resources.

No single national opinion is possible in a continental state on the details of local development, but the existence of nine provinces operating as active legislative entities stimulates the free play of opinion on policy, fosters a friendly rivalry in political ideas, and by protecting diversity gives greater vitality to the whole democracy. At the same time provincial governments in Canada can relieve the strain on the national government and permit it to deal more promptly and effectively with matters of national and international concern. It also reduces the strain on the administrative departments of the national government and prevents them from becoming top heavy, inflexible, and unwieldy as a result of too great an accumulation of administrative responsibilities.

It is a simple but well established truth that the closer democratic government is to the people, the more efficient it becomes and the more responsive it remains to the changing needs of the people. A leading constitutional authority in the United States has aptly remarked that, "in the expansion of governmental services, there is a line beyond which centralized administration cannot go without falling by its own weight. A federal division of powers, in accordance with American tradition, may aid in the avoidance of a too highly centralized administration and offer an opportunity for political and economic experimentation." It is true that in a country with the relatively small population of Canada, the central administration would be less complex and cumbersome than in the United States, but it would be no less exposed to the same difficulties in preserving an intimate contact with the outlying areas. [Territorial magnitude alone would impose a very serious burden upon a centralized administrative system.]

Canada experiences certain problems by virtue of three facts implicit in our federation. Some of these problems are of growing complexity. They are:

1. The greater fiscal power of the national government through its general taxing power and its control over customs and excise and monetary matters.

2. The inability of the provinces to deal separately with such national problems as general unemployment and other matters which are reflected upon the provinces by reason of Dominion legislative action. The facts stated in this paragraph and preceding paragraph are sometimes used to challenge the survival of the Federal System in Canada.

3. The marked disparities between the provinces in area, resources and population, despite their equal legal status, which obviously complicate the operation of our federation.

These were among the major considerations in the minds of the members of the Royal Commission which inquired into Dominion-Provincial relations prior to the outbreak of war. But none of these presents any insuperable difficulty under a Federal System in which there is effective and continuing cooperation between the Dominion and provincial governments. Assuming that there is a common desire to work in the best interests of all of Canada, each of these questions can be settled simply by agreement or by amendment to the basic constitution. In these fields the closest collaboration between the Dominion and provincial governments is imperative. The Federal System can meet all these problems by becoming in fact as well as in name a fully cooperative partnership. The needs of those provinces with taxing power below that required to maintain services at a proper level must be assisted by the whole partnership. These problems raise no argument against the effectiveness of the Federal System. They are a challenge to the elected representatives of the ten legislative bodies in Canada to use their combined power, under a plan of intimate and flexible cooperation, which will make full use of the administrative advantages of decentralization and the economic advantages of centralization by consent to such extent as becomes necessary from time to time.

Even if it were possible to ignore completely all the reasons which led to the adoption of a Federal System in Canada in 1867, there would still be one compelling reason why we should adopt the Federal System at this particular time, if it were our task to start with a blank sheet and draft a completely new constitution. Those reasons are similar to the reasons which led to the adoption of the Federal System in the United States more than a hundred and fifty years ago, but now they are supported by new and overwhelming arguments in favour of the acceptance of this form of government. When the constitution of the United States was drafted, its authors were deeply concerned with the possibility that no matter what form of democracy they might adopt it could be destroyed as other democracies had been destroyed by the usurpation of power within the framework of a democratic constitution. Jefferson and the other leaders of that day constantly emphasized their belief that decentralization of the control of local and personal rights, under the administrative jurisdiction of the state governments, was the surest way to make certain of the continuance of the form of democracy they sought to create.

Later, in 1860, when the constitution of the United States was under such a severe test, Abraham Lincoln refused to accept the arguments of those who called for greater centralization, and asserted his conviction in these words:

The maintenance inviolate of the rights of the States, and especially the right of each State to order and control its own domestic institutions, according to its own judgment exclusively, is essential to the balance of powers on which the perfection and endurance of our political fabric depend.

Then to come to more recent years we find that great leader of democratic thought, Franklin Roosevelt, emphasizing the dangers of too great centralization in the following words:

To bring about government by oligarchy, masquerading as democracy, it is fundamentally essential that practically all authority and control be centralized in one Federal Government. . . . The individual sovereignty of our states must first be destroyed.

These authorities have been quoted because the constitution of the United States has been more thoroughly studied and has been placed under heavier strain than that of any other existing federal government in the world. The arguments

apply with equal force in Canada. In fact they apply with greater force than ever before. We have seen, almost before our eyes, democracy after democracy destroyed in many countries by too great centralization of power.

Without suggesting any present likelihood of such a course being followed in Canada, the dangers exposed by such extreme cases are serious enough to guard against them, even if only as a remote possibility at some future date. The effective control by the provinces of the budgetary as well as the legal requirements of the administration of local affairs is the surest safeguard against the loss of those civil and property rights which lie at the root of our system of democracy.

Arguments for greater centralization, or for a Unitary System of government, usually are put forward in the name of efficiency. But even if efficiency were so achieved, it might be bought at too high a price. In almost every case where the Federal System has been placed under dominating central control, or where the Federal System has given way to a Unitary Government, no matter under what disguise, despotism in some form has followed sooner or later, if for no other reason than the difficulty of attempting to maintain a true democratic system while trying to operate centralized government within the original federal structure.

But experience does not prove that greater centralization does, in fact, increase efficiency. On the contrary, there is ample evidence from practical experience that the closer government is to the people the more efficient it is, and the more that local matters are dealt with locally, the more speedily and efficiently they can be dealt with.

Reasons for Return of Tax Powers to Provinces

There is a very important reason, moreover, why personal income and corporation tax powers should be returned to the provinces. When the 1942 agreement was being drafted, the possibility of that agreement leading to a future surrender of taxing powers was fully discussed, and for that reason the preamble of the Ontario agreement contained the following words:

Whereas the Province shall not, by agreeing as hereinafter provided to desist from imposing certain taxes during the term of this agreement, be deemed to have surrendered, abandoned or given over to the Dominion any of the powers, rights, privileges or authority vested in the Province under the provisions of the British North America Act, 1867, or any subsequent Act of the Parliament of the United Kingdom, or otherwise to have impaired any of such powers, rights, privileges or authority.

The intention of those who entered into that agreement could hardly be stated in more explicit terms. But the agreement went still further. The Dominion Government not only acknowledged in this preamble that the provinces were not to be deemed to be surrendering any of their ordinary taxing powers, but it went further and gave a positive undertaking to permit the Province of Ontario to re-enter the field of personal income and corporation taxes. This undertaking is contained in Section 20 (1) of the agreement between the Dominion and the Province of Ontario. It reads as follows:

The Dominion shall have the sole right to levy taxes on personal and corporation incomes of the calendar year ending on the 31st day of December nearest to the date of the termination of this agreement, and with respect to personal and corporation incomes in the following calendar year undertakes to reduce its rates of taxes by such an amount as will enable the Province again to use the income tax and corporation tax fields, and in particular the Dominion undertakes to reduce its rate of tax on corporation incomes by at least ten per centum of such incomes.

The undertaking should be fulfilled for several reasons. First is the fact that it is regarded as essential, if the provincial governments are to assume their full responsibility, as has been stated already. Second, and equally important, is the fact that it would seriously affect the confidence which could be placed in any future agreements if so positive an undertaking were not carried out in accordance with its terms.

There has been some suggestion in public comments upon this question that the situation has so changed since March, 1942, as to make what appeared quite possible then impractical to-day. Such is not the case. It should be recalled that in March, 1942, the military prospects of the United Nations were at almost their lowest ebb. German forces were on the offensive in North Africa. They had also extended their forward lines far into Russia. The Japanese were sweeping through Asia. British naval strength was at its most precarious point of the whole war. In order to assist and encourage the Government and Parliament of Canada to wage a total war against the Axis powers, the Provinces agreed temporarily to suspend the collection of revenue from certain taxes. The emergency has now ended. We have achieved overwhelming victory in a shorter period than we had reason at that time to expect. The Dominion is in a much better position to return to the provinces their taxing powers than was anticipated in 1942 when the agreements were made.

We do not question that the proposals of the Dominion government have been put forward in the belief that they would provide a remedy for the existing defects and maladjustments in the Canadian economy, but it is evident after reading the printed submissions handed to us by the Dominion government, the later correspondence between officials of the various governments, and the reports of the deliberations of the Dominion-Provincial Economic Committee, that many of the proposals were advanced without sufficient information as to how they were to be implemented. Solutions to many extremely difficult problems were advanced with what now appears to be too easy an assurance of their success. It is, of course, recognized that the proposals were stated to be no more than a basis of discussion, but, since those proposals were put forward, different members of the Dominion Cabinet have made unqualified public statements that the Dominion government would do certain things which could only be done if the proposals were accepted without change.

For that reason, it is necessary to examine the proposals as they stand, and, in doing so, it would obviously be unwise to gloss over difficulties which have not yet been satisfactorily solved by any nation, and to assume too readily that they can be banished by the suggested process of re-arranging the distribution of taxes and administrative functions between the federal, provincial and municipal governments.

It is unlikely that any one will deny that our Federal System needs readjustment. We must organize our combined system of government in such a way that it can best prevent a recurrence of the heartbreaking unemployment and distress of the nineteen thirties and will most effectively deal with the economic and social consequences of six years of devastating war. But those experiences must make us doubly sure that the remedies we apply are actually going to be capable of solving the problems we face. Unemployment, distress, poverty and insecurity are not a special affliction of the Federal System of Government. The terrible consequences of the depression of the nineteen thirties were felt with even greater severity in many countries where the people had concentrated vast powers in the hands of their central governments. There is no reason to assume, therefore, as something already proved, that we can tackle the problems we face more efficiently under centralized financial and administrative powers in the hands of the Dominion Government.

Impressive Gains in Living Standards Under Provincial Direction

The Canadian provinces have gone through trying times, but, in remembering events of which we must do all we can to prevent a recurrence, we should also remember the impressive gains that have been made in living standards, in the development of natural resources, in the improved and more extensive use of farm lands, and the expansion of educational facilities and social services. These services have advanced greatly under strong provincial and municipal governments. In Ontario, we are proud of the high standard of technical training and the productive skills displayed during the war years by three-quarters of a million of industrial workers. They work under conditions which are constantly being improved by provincial laws. We may point to one of the largest and most efficient hydro-electric developments in the world, which has advanced to this position with the direction and financial assistance of the Provincial Government. We may also point with some measure of satisfaction to the present position of the Provincially-owned and operated Temiskaming and Northern Ontario Railway which has played an important part in the development of the northern section of our Province. These, and other activities undertaken and sponsored by the Ontario government, such as the construction of 57,000 miles of surfaced roads, have all had their share in increasing the productive capacity and the economic strength of Ontario, and in turn of Canada. A similar story can be told in every other province. It was from this provincial background, largely created by the provincial governments, that the nation was able to mobilize its resources so quickly for war and to establish a record of production and achievement of which every Canadian can feel justly proud.

Not only has our national success been largely due to the past efforts of various departments of provincial governments, but those departments have greatly increased their experience under the added pressure of the war years. No convincing argument has been presented to support the contention that the Dominion government could deal more efficiently with these services than can existing departments of the governments which have been dealing with them for many years. On the contrary, it seems only too evident that increased centralization would, in a large degree, destroy that measure of flexibility which is so necessary in adapting public services to changing local needs. In a country of such vast distances, with its racial, political, economic, and geographic factors, it seems evident that the greatest measure of efficiency will be achieved by the highest possible measure of decentralization under as great a measure of uniformity of policy and practice as can be attained by consultation, co-operation and agreement. Five years ago, in November, 1940, Dr. H. A. Innis, the head of the Department of Political Economy in the University of Toronto, made the following statement:—

The civil services in the provinces concerned with the social services have improved beyond recognition since the beginning of the depression and further improvement will take the line of further co-ordination of administration of the social services. It is probable that the provinces and the municipalities have shown greater capacity for administrative improvement than the Federal government. Local administration is immediately concerned with local problems, and burdens of taxation have contributed powerfully to efficiency in an exceedingly difficult administrative problem.¹

In our opinion these comments apply with even greater force to-day because, in the very nature of their heavy war responsibilities, the departments of the Dominion Government have had less opportunity than ever to keep in touch with local conditions throughout the country. For that very reason, the tendency should be to rely more and more upon the provincial departments, with their

¹*Canadian Journal of Economics and Political Science*, Vol. 6, November, 1940, p. 568.

long years of training and experience in those fields of governmental responsibility, and remove from the Dominion Government such local affairs as have come under their administrative responsibility because of the emergency created by the war.

Effects of Dominion Proposals on Ontario's Budget

The Dominion Government proposes that the provincial governments should enter into an agreement under which they would forego the imposition of personal income taxes, corporation taxes and succession duties, leaving the Dominion Government the full and exclusive access to these revenue sources. The general effect of abandoning the first two of these forms of direct taxation has already been discussed. The effect of the acceptance of this proposal will now be discussed in relation to the compensating payments suggested by the Dominion Government. For the surrender of these three most flexible taxes and for the statutory subsidies now provided, the Dominion Government offers to guarantee to the Government of Ontario a minimum annual payment of \$45,500,000 and to make certain grants-in-aid for social services, including health insurance and old age assistance, conditional upon the Province increasing expenditures on those services. In examining the effect of these proposals it is necessary to consider their result after full implementation of the health proposals, although it is stated that the latter are to be introduced gradually. Only in this way can the full effect of the proposals be understood. Applied to Ontario's budget for the fiscal year 1945-46 and assuming that the general subsidy provided by these proposals is based upon a gross national product of \$10,730,000,000, the subsidy from the Dominion Government to the Province of Ontario would be approximately \$61,000,000. Upon the basis of the 1945-46 budget, the result of this would be a \$15,000,000 deficit for the Province of Ontario. If the gross national product were reduced from the wartime high to a point where the minimum subsidy were to be paid, then the Provincial deficit upon the basis of our budget for the current year would be \$30,000,000. It will be seen therefore that, so far as the Province of Ontario is concerned, the proposed financial arrangements do not even meet the wartime requirements of our budget, to which must be added the cost of the Dominion proposals relating to health and welfare.

The term "wartime requirements" is used because during the war the construction of new highways and public works and other provincial developments have been restricted to the very minimum. It must be remembered that these expenditures were at a very low level in the basic year used for the purpose of arriving at the figures in the Dominion Government proposal. If normal expenditures were undertaken by Ontario, the above deficit would be further increased by at least \$12,000,000.

Now that we are approaching more normal times, heavy additional expenditures for these purposes must be made and the result of the acceptance of the Dominion Government proposals would be a very heavy deficit. The additional money required to meet this deficit could only be raised by taxes in a field which would have been very severely limited by the agreement of the Province to vacate the fields of personal income tax, corporation tax, and succession duties, and to forego statutory subsidies.

The expansion of educational and other facilities, which have been curtailed by the demands of war, would also have to come from that limited remaining field of taxation.

It is true that the payment of a minimum subsidy of \$45,500,000 for the relinquishing of those sources of taxation which brought in two-fifths of the total Provincial revenue in 1940-41, seems to be a very substantial sum in itself.

But it only represents approximately the amount we received in 1940-41 from these sources and the Dominion statutory subsidy. The amount is much less than we would have received in subsequent years based upon the same rates as applied in 1940 and 1941.

At Confederation, the provinces surrendered their rights to impose customs and excise duties, as well as other forms of indirect taxation in return for subsidies which ranged from nearly 50 per cent of the provincial budgets of Ontario and Quebec to 92 per cent of the provincial budget of New Brunswick. To-day those statutory subsidies, supplemented though they have been by automatic increases and subsequent amendments to the original agreement, represent only a small fraction of provincial revenue. In the Province of Ontario, for instance, the statutory subsidies amount to less than 3 per cent of the Government's revenue. There is no reason to assume that the situation regarding the present Dominion proposals would be any different in the long-term result than has been the case with those subsidies agreed upon at Confederation. Even if the amount were adequate to-day to meet provincial requirements, it is not only possible but almost certain, that we would run into further difficulties in a comparatively short time. We recognize that the subsidy increases in accordance with the gross national product, but there is no allowance for increased production in any one province based upon its own efforts. There is also the possibility of inflationary prices; but lessened private employment and a resultant lower national product would leave the provinces with a static revenue to pay higher prices and wages. The difference is, that unlike our position after Confederation, we would have no important fields of taxation to which the provincial governments could turn.

There is another very important weakness in the financial proposals of the Dominion Government. On page 8 of the printed "Proposals of the Government of Canada" we read this statement:

The modern governmental budget must be the balance wheel of the economy; its very size to-day is such that if it were allowed to fluctuate up and down *with* the rest of the economy instead of deliberately *counter* to the business swings it would so exaggerate booms and depressions as to be disastrous.

Nevertheless that is the very result which the acceptance of the Dominion Government's financial proposals would produce on provincial budgets, for the Dominion proposes to pay the provinces a subsidy which fluctuates in direct relation with the business cycle. The Federal Government would encourage the provincial and municipal governments to initiate and expand public works projects in depression, with the Federal Government contributing twenty per cent of the cost and the provinces and the municipalities bearing the lion's share of eighty per cent. This would require loan financing by all governments, but unlike the Dominion Government, the provinces and their municipalities would not have the flexible tax sources and buoyant revenues, even in periods of prosperity, to retire the debt they had created in depression by undertaking unemployment relief projects. This is particularly true of the Province of Ontario where the Dominion's proposals do not permit a balanced budget, let alone retirement of provincial debt. Failure to reduce debt when coupled with the provinces' loss of their progressive taxes would have a damaging effect on provincial credit.

The Dominion Government proposes that the provinces finance their share of the cost of health insurance by "a registration fee to be paid by or on behalf of every person, who has attained his sixteenth birthday and whose normal place of residence is in the province or area where benefits are provided. . . ."¹ But any one who has had experience with the collection of a poll tax will under-

¹*Proposals of the Government of Canada*, p. 32.

stand the difficulty of collecting a registration fee which is not related to earning capacity, or to whether the registrant is employed, an old age pensioner, or a student without personal earning power.

The Dominion Minister of Health and Welfare, as well as certain Dominion officials, have also stated that the Dominion Government intends to finance its share of the cost of health insurance or old age pensions by a Social Security Tax levied on all incomes, without exemption. While the amount to be levied in this way was not definitely stated, nor was this special tax in fact mentioned in the printed "Proposals", the figure which has been mentioned in discussion is five per cent. This would be in addition to present income taxes and the registration fee or poll tax to be levied by the provinces. This would mean that if the provinces relinquished their personal income and corporation taxes and succession duties, the tax field left to them would be further crowded and confused by the Dominion Government introducing its special income levy. Moreover, it should be remembered that the remaining limited tax field left to the provinces includes revenue from the sale of alcoholic beverages and the gasoline tax, the revenue from both of which may decline by reason of factors over which the provinces exercise no control.

The subsidies the Dominion Government proposes to pay the provinces for surrendering their progressive direct taxes increase in accordance with gross national product per capita, but the provincial governments would not be able to keep informed regarding the numerous adjustments and changing estimates which are used in compiling this figure. Having regard to Ontario's increasing industrial and other production, it is certain that the revenue from personal income and corporation taxes and succession duties will increase more rapidly than the increase in the suggested subsidy payment to the Province based on gross national product per capita as estimated by the Dominion Government. This is so for two reasons:

(1) Personal income tax and succession duty rates are progressive. As income and estate values increase, they become subject to higher rates of tax and the revenues therefrom tend to rise more rapidly.

(2) In the past, the profits of corporations have risen in greater ratio than their gross production.

The Dominion Government proposes that we should enter into a temporary agreement for three years so that the effect of such arrangements could be explored. Past experience teaches that such temporary agreements have a habit of becoming permanent. Moreover it might become extremely difficult, if not impossible, to restore the position of the provinces after a three-year period had elapsed if unsatisfactory arrangements were made now. Meanwhile the provincial technical organization would have disintegrated to a considerable extent. We are in the immediate transition stage and insofar as it is humanly possible the agreements made now should be agreements which will be workable over a long time. The Ontario government is reluctant to enter into any agreement for a limited term, which would not appear to be satisfactory for the longer term.

Summary of Ontario's Objections

To summarize our objections to the Dominion's proposals:—

1. The Ontario government cannot accept the proposition that a concentration of financial and administrative power under the Dominion government provides a satisfactory solution to Canadian economic and social problems. Countries with unitary forms of government have suffered at least as badly in depression as countries with the Federal System.

2. Provincial fiscal autonomy can only be preserved by each provincial government having power to impose its own taxes and to raise such sums of money as it deems to be necessary for the efficient carrying out of its administrative functions.

3. Each province should be left in a position to increase its tax revenue by use of flexible and productive revenue sources without recourse to appeals to the Dominion government.

4. There should be alternative sources of revenue available to the provinces should alcoholic beverage profits and gasoline tax revenue decline by reason of factors outside the control of the provincial governments.

5. Financial stringency under the Dominion proposals would exert pressure on the provinces to resort more extensively to consumer taxes which have been generally regarded as nuisance taxes. This would not only increase tax collection costs but tend to restrict the flow of trade by establishing interprovincial tax barriers.

6. The payment of large unconditional subsidies to the provinces violates the principle that a government which is autonomous within its assigned jurisdiction should be charged with the responsibility of raising the money which it spends, subject to the approval of the legislative body.

7. The Dominion government's proposed subsidies for the relinquishment of provincial tax sources are based on an index of gross national product which involves certain arbitrary adjustments and estimates that might be difficult for the provinces to check.

8. The Dominion's subsidies are inadequate. When the cost of the proposed health services is added to the Ontario government's curtailed 1945-46 budget, the result is a deficit of \$15 million. Normal expenditures on highways, developmental services and education would increase this deficit by a very large sum.

9. The Dominion subsidy to Ontario based on gross national product per capita will not rise as rapidly as the Province's revenue from direct taxes owing to the effect of progressive tax rates.

10. Decentralization of services provides the best assurance that the flexibility, vigour and efficiency of public administration will be preserved.

11. A short-term agreement is proposed, but continuation of the centralized power to levy personal income and corporation taxes and succession duties for another three years would operate against a reversion to provincial taxes in these fields. The bargaining power of the provinces in the matter of the periodic sale of their tax powers is not constant. It would become weaker with the passing of time. As the method of centralized levying of taxes took deep root, it would become difficult for the provinces to resist the pressure of the Dominion to accept whatever terms were offered. This would be especially marked if the sale of the taxes coincided with a time of rising unemployment and economic distress.

For the reasons stated above, the Ontario government finds itself unable to approve of the proposal of the Dominion government that it surrender its progressive tax powers. The Ontario government is not prepared to place the economy of the Province of Ontario in such a position that the government of that Province would be compelled either to impose uneconomical and vexatious forms of taxation or to be continually appealing to the government at Ottawa for further financial aid.

PROPOSALS OF THE GOVERNMENT OF THE PROVINCE OF ONTARIO

These proposals are discussed under the following headings:—

- I Dominion-Provincial Economic Board
- II Dominion-Provincial Co-ordinating Committee
- III (a) Personal Income and Corporation Taxes and Succession Duties
(b) The National Adjustment Fund
- IV Taxes to be Left to the Provinces Exclusively
- V Foreign Exchange
- VI Public Investment
- VII Welfare
- VIII Health
- IX Right of Set-off

While the proposals are set out under the separate headings, they constitute one integrated plan and should be read together in that light.

SECTION I

Dominion-Provincial Economic Board

The Government of Ontario recommends the formation of a Dominion-Provincial Economic Board which would be composed of technical advisers to be appointed by the Dominion and each of the provincial governments. It should be a permanent body which would assemble and digest all national, provincial, municipal and international statistics bearing on the problems of the Dominion and the provinces.

The Economic Board would advise regarding uniform tax legislation and examine jurisdictional tax problems. It would promote closer collaboration between Dominion and provincial administration. It would disseminate information to all governments on taxes, economic trends, inter-governmental affairs and investment policies.

This Board could include representatives of the Statistical Bureaux of the Dominion and each of the provinces, and of the Research Department of the Bank of Canada.

SECTION II

Dominion-Provincial Co-ordinating Committee

From the present Dominion-Provincial Conference should be formed a Co-ordinating Committee, composed of the Prime Minister of Canada and the premiers of the various provinces or their nominees. The duties of this Co-ordinating Committee would be:

- (a) to continue discussions with a view to arriving at a solution of many outstanding matters which cannot be determined at this Conference and which obviously cannot be dealt with in a limited period;
- (b) to determine from the information supplied by the Dominion-Provincial Economic Board the amount of the Adjustment Grants, as outlined in Section III, (b), of these proposals entitled, "The National Adjustment Fund";
- (c) from information supplied by the Dominion-Provincial Economic Board to recommend the timing of public investment projects, outlined in Section VI of these proposals entitled, "Public Investment";
- (d) to act as a continuing channel of information between all the governments of Canada.

Success in the development of our country, the attainment of high levels of employment and increased welfare and security are dependent upon the co-operation of our people and all our governments. In Canada, the Government of the Dominion and the governments of the provinces both have functions prescribed by the constitution. Conditions, however, arise from time to time which require change. A co-operative spirit is needed in both the Dominion and the provincial governments. We have had several Dominion-Provincial Conferences since Confederation. One lesson which we have learned from them is that co-operation can best be brought about by a thorough understanding of the problems which confront us. These problems are many. Their solution will contribute to the efficiency of government, to the avoidance of duplication and overlapping and the achievement of uniformity.

It is plain that the present Conference cannot deal finally with many of the matters which are properly subjects for Dominion-Provincial consideration and agreement. Many examples could be given of the need for continuing study. A case in point is the subject of *Agriculture* referred to in the "Proposals of the Government of Canada". Concerning the expansion of agricultural services, the "Proposals" read:

The Dominion is anxious to work out the best possible basis of co-operation with the provincial governments in order to eliminate unnecessary duplication and to achieve a co-ordinated increase in activities where expansion is desirable.¹

Under the heading of *Marketing* there are these words:

It is apparent that the Dominion and the Provincial governments are agreed as to the need for some action which will clarify the control and direction of activities in this field. Under these circumstances, it would appear that the Conference should give some consideration to this matter with a view to achieving the desired control.²

A similar suggestion is made under the heading of *Conservation Programme*:

It is proposed that the Dominion and provincial governments work out appropriate arrangements for the extension of agricultural conservation and development activities across the Dominion.³

Many other examples arising in connection with labour relations, public investment policy, social security and other matters could be given. The solution of these problems depends as much on a genuine co-operative spirit as upon the means available for getting things done.

SECTION III

(a) *Personal Income and Corporation Taxes and Succession Duties*

We submit for the consideration of the Dominion and the other provincial governments an alternative plan to deal with corporation and personal income taxes and succession duties and subsidies. In brief the plan is:

1. The Dominion shall levy corporation and personal income taxes under its own acts, but not succession duties.
2. The provinces shall levy corporation and personal income taxes at their own rates, but under acts uniform with the Dominion.
3. The provinces shall levy succession duties under uniform acts.
4. The Dominion shall collect corporation and personal income taxes as agent of the provinces; the provinces shall collect succession duties.

¹*Proposals of the Government of Canada*, p. 18.

²*Ibid.*, p. 18.

³*Ibid.*, p. 18.

5. Ten per cent of the provincial corporation taxes, personal income taxes and succession duties shall be placed in a fund, to be known as The National Adjustment Fund, for division among the provinces in the form of Provincial Adjustment Grants on the basis of fiscal-need to be determined by the Dominion-Provincial Co-ordinating Committee.

6. A re-adjustment of provincial corporation income tax revenue would be provided so that the advantage of head office location in some provinces would be shared by all provinces.

7. The Dominion would continue to pay subsidies as provided by the B.N.A. Act, 1867, and amendments.

This plan preserves all the advantages of single corporation and personal income tax collection as proposed by the Dominion Government, leaves the provinces with the power to levy income taxes in conjunction with the Dominion, and reserves succession duties to the provinces.

A tax plan affording such eminent advantages could not, however, be carried through without a measure of compromise on the part of the provinces. Each province would have its own tax act and would exercise control over its own rates of taxation. The several provinces, however, would be required to adopt uniform corporation and personal income tax acts modelled on the Dominion act, and to authorize collections to be made by the Department of National Revenue. Provincial succession duty acts would also be uniform.

Prior to the 1942 tax agreements, the provinces of Ontario, Quebec, Manitoba, and Prince Edward Island had personal income tax acts in force based on the Dominion Income War Tax Act, and the taxpayer made but one return to the Department of National Revenue. This method of centralized collection of provincial personal income taxes with separate uniform acts and different rates was tested successfully. We propose therefore that all provinces re-establish personal income taxes on this basis.

The Ontario Government's proposal that there be uniform succession duty acts in all provinces would eliminate certain anomalies and injustices which have resulted from multiple taxation imposed under two or more different succession duty acts. Even under a uniform act, the application of succession duties must take into account variations in the local laws of each province relating to property and personal rights under land, inheritance, marital and other laws. Moreover, over the course of several decades the provincial governments have developed highly experienced and efficient administrative staffs for the collection of succession duties. The Government of Ontario, therefore, considers it desirable that the collection of succession duties, continue to be carried out by the ministers and administrative personnel of the provinces.

The succession duty plan proposed by Ontario will have all the advantages derived from simplification. A single return would be made to the government of the province in which the deceased was domiciled. The succession duty administrative department of such province would assess the entire estate regardless of the situs of any property, and in doing so would apply the rates of any other province to property situated in such other province. It would collect the entire duty for all provinces concerned and pay to each province the amount of the duty collected on its behalf. Where the domicile is not in any province of Canada, the province to which the estate representatives elect to apply for assessment of duty and transfer of assets would assess, on behalf of all provinces concerned, the entire duty on property situated in that or any other province.

The same centralized administrative procedure used for the collection of provincial personal income taxes would be employed for the collection of provincial corporation taxes. Corporations carrying on business in more than one province would be relieved of the trouble and expense of making com-

putations for several provincial returns. A corporation doing business in nine provinces would only be called upon to familiarize itself with one provincial tax act, for all would be the same. It would file only one return and make only one tax payment. A corporation would report its sales in the several provinces of Canada and in foreign countries, the sales being reported on the basis of the residence of the purchaser. In computing its tax, the corporation would divide its net taxable income in proportion to the reported sales in the various provinces and apply the rate of tax levied by such provincial governments to the amount of the net taxable income apportioned to each province. The company's tax payment would be made to the Department of National Revenue, and the revenue would be credited to the accounts of the respective provinces. While corporations would be called upon to record their sales by provinces, most companies which carry on business in more than one province already maintain such records and this would not add to their work. The complaint of most national corporations has been that there were nine returns, nine different sets of calculations, and nine payments. Under this proposal there would be only one set of calculations and only one return. Banks, railways, express, telegraph and insurance companies do not come under this plan, but they would file only one provincial return with the central collecting agency, allocating the base upon which the tax was levied as they have done formerly under provincial tax acts in force prior to the 1942 tax suspension agreements.

It has often been charged that certain tax benefits accrued to Ontario and Quebec owing to the relatively large number of corporations which found it advantageous to locate their head offices in these provinces. Corporations having their head office in Ontario and carrying on business in another province have always been subject to taxation by that province on the business they carried on there. Ontario has allowed such companies to deduct from the taxes otherwise payable to Ontario the amount of taxes paid to other provincial governments, provided that the deduction from the Ontario tax should not be greater than if computed at Ontario's rates.

Prior to the 1942 tax agreements, the Province of Ontario taxed the net income from foreign sales of corporations having their head offices in Ontario. Ontario did not tax the net income derived from export sales of any company whose head office was situated in Manitoba or any other province. Similarly, Manitoba taxed the net earnings from foreign sales of corporations having their head offices in Manitoba, but not the net income from export sales of corporations with head offices situated in other provinces. This provincial law of corporation taxation meant that Ontario and Quebec, and some other provinces in lesser degree, enjoyed a relatively larger corporation tax source than other provinces owing to the concentration of head offices. Under the plan Ontario proposes for the centralized collection of corporation taxation with uniform, separate acts and different rates, if desired, all provinces share in the taxation of corporation net income, whether earned on domestic or foreign sales, according to the sales of the company in the Canadian provinces. This plan should go a long way in solving a difficult problem which has been the source of much criticism in the past.

(b) The National Adjustment Fund

It is further recommended that 10 per cent of the revenue of each provincial government from personal income taxation, corporation taxation and succession duties be placed in a pool to be known as The National Adjustment Fund, and, to the extent required, the pooled revenue would be apportioned among those provinces which are unable to provide a national minimum of social services. The amount of the Provincial Adjustment Grants would be determined by the Dominion-Provincial Co-ordinating Committee upon the recommendation of the

Dominion-Provincial Economic Board. Grants would be made only on the basis of need, and they would be periodically reviewed and adjusted in conformity with the changing requirements of the several provinces.

This proposal would in no way interfere with the direct expenditures of the Dominion Government, but it is considered that the pooling of provincial tax revenue should make it unnecessary for the Dominion Government to grant fiscal-need subsidies to the provinces. As provincial revenues from personal income and corporation taxes and succession duties are adjusted to full scale post-war production, this National Adjustment Fund contributed by the provincial governments should amount to an annual contribution of at least \$20 million. This figure compares very favourably with the Dominion Government's additional special grants of \$5.5 million paid to six provinces before the tax agreements came into force and to the \$9.0 million which is now paid under the tax agreements to certain provinces under their debt option clauses and loss of revenue provisions and in fiscal-need subsidies. In 1940 the Royal Commission on Dominion-Provincial Relations recommended national adjustment grants of \$14.9 million to six provinces. When it is remembered that all those provinces, except Manitoba, now receive amounts payable by way of Family Allowances in excess of the amount contributed in taxes to a greater extent than the benefits recommended by the Commission in 1940, it will be seen that this fund should be more than adequate to provide fiscal-need subsidies having regard to the recommendations of the Dominion-Provincial Commission as recently as 1940.

If Ontario's plan be adopted in principle and its details worked out with the Dominion and other provinces, certain modifications may emerge. It is believed, however, that it is along the lines suggested here that a solution to our Dominion-Provincial tax adjustment problems will be found.

The above plan is conditional upon acceptance by all the provinces. It contemplates the provinces paying their fair share of the cost of the centralized collection of corporation and personal income taxes.

SECTION IV

Taxes to be Left to the Provinces Exclusively

Although ministers in past Dominion Governments have admitted that personal income and corporation taxes and succession duties belong to the provinces, we believe that the first two should be shared by both the Dominion and the provinces. As already stated, the Ontario Government submits, however, that the Dominion Government should vacate succession duties and certain other direct taxation fields. The Dominion Government has access to all fields of taxation, direct and indirect, and also enjoys exclusive jurisdiction over banks, banking and the issuing of money. The provinces are restricted to direct taxation and with their wide duties and functions must have revenues which are adequate to enable them to discharge their full constitutional responsibilities. The Dominion Government therefore must leave certain of the direct taxation fields exclusively for the provinces if they are to have the taxation sources with which to function effectively. This point of view has been widely acknowledged and indeed asserted by both Dominion and provincial leaders in the past. When the Dominion Income War Tax Act was introduced in 1917, the then Minister of Finance emphasized that the measure was being introduced only because of "manifest public necessity" and acknowledged that the Dominion Government was invading a field "to which the provinces are solely confined for the raising of their revenue." In fact he went so far as to say that this Dominion taxation was a temporary measure only. From Confederation onwards a tacit understanding existed to the effect that direct taxation should be reserved for the provinces.

At this time it is not sufficient to deal only with the three taxes referred to in Section III. In addition, ample direct taxation fields must now be reserved for the provinces. The Dominion Government should vacate the following fields: succession duty, gasoline tax, amusement tax, race track pari-mutuel tax, security transfer tax, electricity tax; and effectively recognize priority of provincial taxation on mining and logging operations. Moreover, the Dominion Government should refrain from invading further direct taxation fields now or in the future.

During the recent war, the Dominion Government introduced succession duties for the first time, although the Government of Ontario had enjoyed the exclusive occupation of this field continuously since 1892. As succession duties bear a direct relationship to "property and civil rights", they have always been regarded as a form of taxation reserved for the provinces. In many cases the creation of large estates, which are the major source of the Province of Ontario's succession duty revenue, parallels the depletion or using-up of natural resources. As has been pointed out, the conservation, replacement and development of our natural resources is a provincial responsibility. Succession duties enable the provinces to recoup part of the expenditures of the provincial governments on the development of their natural resources and to provide funds for protecting and conserving those resources and opening up new areas for development.

The Dominion Government also imposed taxes for the first time on gasoline, amusements and race tracks. The Federal Government's tax on gasoline is particularly open to objection in view of the large expenditure and investment by the provinces for highways and roads, and the dependence of the provinces on revenue from the gasoline tax to finance highway costs. The Dominion's taxes on security transfer, amusements and race tracks are considered by Ontario to be an invasion of the provincial tax field and to have contributed to unnecessary duplication in the Canadian tax system. The Dominion Government should discontinue these forms of taxation.

The Province of Ontario also takes exception to the Federal Government's tax on electrical energy consumed by residential customers. By advancing loans to the Hydro-Electric Power Commission and by subsidizing rural power lines, the Government of Ontario since 1909 has contributed materially to bringing the benefits of low cost electric power to the consumers of Ontario. The effect of the Federal Government's tax on electrical energy is to hamper the Province in these efforts to obtain wide distribution and high consumption at low cost. The electricity tax should be discontinued by the Dominion Government.

Finally, the provinces have long contended that provincial taxes on mining and logging operations, even when levied on profits, are essentially a royalty, and that such taxes should be deductible before the calculation of the Dominion's corporation tax. The Government of Canada has agreed in principle to this submission and the Government of Ontario approves.

Summarizing these proposals, the Government of Ontario submits that the Dominion should vacate the following tax fields:

- (a) Succession duties;
- (b) Gasoline;
- (c) Amusement;
- (d) Race track pari-mutuel;
- (e) Security transfers;
- (f) Electricity;

and further refrain from invading additional direct taxation fields now or in the future, and effectively recognize priority of provincial taxation on mining and logging operations.

SECTION V

Foreign Exchange

The Foreign Exchange Control Board of Canada was created by an order of the Minister of Finance on September 15, 1939, authorized under the provisions of the War Measures Act. The Board has power to fix the rates at which foreign exchange, in such currencies as the Board may designate, can be purchased or sold. The buying rate of 11 per cent and the selling rate of 10 per cent established on United States currency on September 16, 1939, have remained constant during the war.

In these circumstances, it is urged that the Dominion Government make available to provincial and municipal governments the foreign exchange required to meet their external obligations at parity of exchange. To obtain this agreement, the provinces and municipalities should accept a ruling whereby future provincial and municipal borrowing would be restricted to Canadian currency.

SECTION VI

Public Investment

At the first meeting of this Conference, the Ontario Government expressed its belief that the highest possible measure of co-operation should be established between the Dominion and Provincial Governments in the development of their resources and the maintenance of all types of production. It approved of the idea of holding back public construction and public investment during the period when private investment and private production can provide the opportunities for employment which assure gainful occupation to our people. Such timing of public investment should be based upon an analysis of all the economic and other factors which determine the anticipated course of the business cycle. It must be presumed that every government would find the figures equally convincing at the same time.

Having regard to what has already been said about the centralization of authority, it is submitted that this situation can best be met by each of the governments acting independently on carefully prepared plans with the advice and recommendation of the Dominion-Provincial Economic Board and the Coordinating Committee.

It need hardly be said that the Conference can only proceed on the assumption that each government will be actuated in its decision by an equally impartial approach to the solution of our combined problems. That being so, it would follow that if the reports of the above bodies indicate the desirability of a particular course at a particular time with sufficient clarity, then each government would act similarly upon their findings.

The timing of public works and other activities calling for public investment could be brought about just as effectively upon the advice of the above Board and Committee without delegating to the Dominion Government the responsibility for extremely important decisions within the sphere of exclusive provincial jurisdiction. Decentralization in dealing with these problems will be a very great advantage because the scope of the undertakings will make prompt decisions in regard to each project much easier if the decisions remain in the hands of the experts of the branches of the provincial governments which have been dealing with these matters for years.

It seems obvious that decisions as to when, where and to what extent activities should proceed at a given time in the forests, in the mines, in the construction of highways, in conservation of soil, and in practically every aspect of production can be made very much better by those who are constantly in touch

with these very subjects. Without the building up of a wholly unnecessary duplication of staff in Ottawa, there simply would not be the official experience available to make appropriate decisions in these matters.

It would seem desirable that an adjustable amount be contributed by the Dominion Government to work of this kind between a minimum and maximum figure depending upon the actual need instead of using an arbitrary figure in each case. There would seem to be no reason why the Dominion Government should make as high a grant to some revenue-producing or self-liquidating projects as to other projects which would provide no prospect of direct financial return. The decision as to the amount, within fixed proportions, could be settled by the Economic Board and the Co-ordinating Committee.

SECTION VII

Welfare

The question of responsibility for public welfare services is brought under review by the broad social security legislation the Dominion Government has passed during the war. The Unemployment Insurance Act, the Family Allowances Act, and an Act Creating a Department of National Health and Welfare, make it necessary to decide upon the clear allocation of responsibility for social security measures. The purpose of these measures is two-fold: to provide an element of security for the beneficiary, and to increase the stability of group income and employment. A social security program operates as an income levelling agency. Since the Dominion Government implemented its family allowance legislation, the rather unusual situation has arisen that the Dominion Government pays family allowances and some of the provinces pay mothers' allowances. It is submitted that the present provincial services, including mothers' allowances, children's aid, public assistance for unemployables and other approved provincial public welfare services, should be financed by the Dominion Government to the extent of 75 per cent of the cost, the provinces to bear the remaining 25 per cent and the cost of administration. A vital factor to be considered in the re-alignment of welfare services between the Dominion and the provinces is that they require considerable local supervision and care. For that reason, the administration of such services would properly come under the jurisdiction of the provinces.

The Dominion's proposals for old age pensions fall into two divisions. First, as part of its general proposals, the Dominion Government proposes that it finance and administer the payment of old age pensions of \$30 per month regardless of means to all men and women aged 70 and over in Canada. Second, it proposes that the provincial governments administer the payment of old age assistance (or pensions) of \$30 or less per month to persons aged 65 to 69 who are in necessitous circumstances. The payments would be made under Dominion-Provincial agreements broadly similar to those now in existence for old age pensions, but with certain changes designed to liberalize conditions of payments. The provinces would bear 50 per cent of the cost and the Dominion the remaining 50 per cent.

The Province of Ontario agrees that old age pensions should be extended to all citizens over 70 years of age without a means test, but disagrees with joint Dominion-Provincial contributions to pensioners under the age of 70 with a means test.

It is recommended that old age pensions should be paid to all citizens over 65 without a means test. It is recognized, however, that heavy expenditures are involved in this proposal, and it is therefore suggested that the extension to cover all persons over the age of 65 should be made as soon as the Dominion finds that it has the necessary financial resources.

The Ontario Government contends that the Dominion Government should assume the full financial responsibility for public assistance of the employable unemployed. The Dominion's printed "Proposals" state:

As a part of the general arrangement with the provincial governments, the Dominion Government now proposes to establish a practicable and comprehensive system of assistance to able-bodied unemployed persons as soon as possible, rather than waiting until the need for it actually arises.¹

There are, however, important qualifications to the Dominion's acceptance of this financial responsibility. For instance, the Dominion's brief contains these statements:

- (a) "The plan proposes acceptance of Dominion responsibility for unemployed employables, and provincial and local responsibility for unemployables, but it is recognized that this division presents problems of definition in some individual cases, and that in operating practice the only final test of employability is ability to get and hold a job.²
- (b) "A person who ceases to be employable would not be eligible for unemployment assistance. In the absence of more specific evidence of unemployability, a person who has remained on assistance for a period of two years, without being able to obtain or keep employment other than of a casual nature, would be declared ineligible and transferred to the responsibility of the provincial government and municipality.³

Under these definitions a large proportion of the cost of unemployment assistance to persons actually employable would fall on the provinces and municipalities.

The Government of Ontario submits that public assistance for unemployed employables should be a Dominion responsibility. In the case of unemployables, the Province would bear 25 per cent of the cost together with the cost of administration, the balance being paid by the Dominion Government.

SECTION VIII

Health

The Dominion proposals under this heading in regard to benefits to be extended, the costs involved and the present limitations of hospital and personnel facilities of the provinces have been given careful consideration. It has become obvious from an examination of the proposals themselves and particularly from the deliberations of the Economic Committee that this subject requires a great deal of further study and preparation of essential facts. The Ontario Government recommends that this should be undertaken at once. This whole question could well be one of the first subjects referred to the Dominion-Provincial Co-ordinating Committee.

While the Dominion Government has suggested that it intends to finance its contribution to health insurance by a social security tax, it proposes that the provinces finance their share of the cost of health insurance by the collection of a fee or tax to be paid by every person over sixteen years of age. This, as has already been pointed out, is in effect a poll tax which is not related to earning capacity or to whether or not the taxpayer is employed. The provinces would experience the utmost difficulty in underwriting health insurance services financed by such an unsatisfactory form of taxation.

¹*Proposals of the Government of Canada*, p. 42.

²*Ibid.*, p. 43.

³*Ibid.*, p. 44.

It is also apparent that the Dominion's program is dependent upon the hospitals and trained medical, dental and nursing personnel available in the provinces. In Ontario, present facilities are taxed to capacity. That is doubtless true elsewhere. Before embarking on so extensive and costly a health program a thorough study should be made. Sound foundations in the form of adequate hospital facilities and trained personnel are essential. This will require time and very large expenditures on the part of the provinces. The Province of Ontario has already taken action on the above and is prepared to collaborate with the other provinces and the Dominion in the furthering of these objects.

SECTION IX

Right of Set-off

The Ontario Government recommends that in any agreement made with the Dominion Government there should be no right of set-off of debts owing to the Government of Canada by the provincial governments against any payments to be made by the Dominion Government to the provinces.

Conclusion

There are many important problems facing the people of Canada to-day and many new ones which will arise in the future. They can all be faced with confidence if there is effective co-operation between the Dominion and provincial governments. But there is one particular problem which is primarily that of the Dominion Government and which will have a profound effect upon the level of employment throughout every part of Canada. Experience in the past has shown that our national income moves in very close conformity with the dollar value of our export trade. In pre-war years, Canada's two best customers, the United Kingdom and the United States, purchased nearly eighty per cent of our total exports. A high level of employment in Canada depends directly upon the extent to which we can maintain these markets and, if possible, expand them. All Canadians have reason for great concern about the present restrictions on exports to both those markets, particularly to the United Kingdom. It is an essential part of any broad national plan for the maintenance of employment that the Dominion Government should make every effort to stimulate our trade in export markets wherever they may be found. On the part of the provincial governments and our people generally, every effort should be made to maintain steady production and improve quality. A whole-hearted measure of co-operation is needed from all governments and all the people of Canada to meet vigorous competition from all nations for export business throughout the world.

As was said at the outset, these submissions have been presented, with the acceptance of the basic principle, that while each provincial government owes its primary responsibility to the people of its own province, the welfare and prosperity of the people of all provinces depend upon the strength and vigour of the whole nation. With a spirit of co-operation, understanding, and mutual good-will, this Conference can lay the foundation for Canada's greatest period of expansion and prosperity, without many fundamental changes in the constitutional structure upon which has been built a strong and confident nation.

SASKATCHEWAN REPLIES

TO

The Dominion Government
Proposals delivered to the
Dominion-Provincial Con-
ference on Reconstruction.

O

January 9, 1946

Foreword

When the Dominion-Provincial Conference opened in August, 1945, the Saskatchewan Government indicated its willingness to cooperate and outlined the lines along which it believed post-war reconstruction should proceed. In the following pages the Saskatchewan Government has stated the terms under which it will be possible to accept the Federal Government's proposals and at the same time provide those services for which the Provincial Government is responsible.

These proposals are not advanced in any spirit of driving a bargain but with a full appreciation of our responsibility not only to the people of Saskatchewan but also to the national welfare of Canada. We believe that this attitude alone can make possible the social and economic adjustments so essential if we are to cope with the problems of the post-war era.

T. C. DOUGLAS
Premier of Saskatchewan

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PART I

FISCAL PROPOSALS

Since the Dominion-Provincial Conference met in Ottawa in August of last year much attention has been given to the proposals put forward by the Dominion Government. Not only have these proposals been considered in detail by the Government of Saskatchewan but they have been analyzed by members of the public service in all departments of government in an attempt to assess their merit in relation not only to the economy of the province but to the economy of the nation as well.

On account of the widespread interest in the conference and in the proposals throughout the province it has been felt that the general position of the Government should be set out in a memorandum to the conference which would be available for reference purposes to the general public. The first part of the memorandum will deal with the principles which in the opinion of the Government of Saskatchewan should be followed if the provinces are to be in a position to discharge their constitutional obligations while preserving the national outlook.

Sirois Principles Preferred

It cannot be denied that the members of the Saskatchewan delegation were bitterly disappointed in August when it was found that the Dominion Government did not take the lead in proposing an adherence in substance to the terms of the Sirois Report. It is well known that at the 1941 Conference the Dominion put forward this report as a basis for discussion and it was hoped that the position then taken would not be receded from. If we in Canada are to think in national terms—and we keep saying that we do—then we should act nationally and it seems to us in Saskatchewan that the Sirois Report suggests just that. For that Report did propose a national standard of social and educational service without penalizing the citizens of any province through the imposition of higher-than-average taxes, having regard to capacity to pay. That appeals to us as a national outlook and consequently we were disappointed that the Dominion has apparently receded from the position taken in 1941, a disappointment quite evidently shared by all the people of the province. It is within the power of the Dominion to do most of the things proposed in the Sirois Report through the exercise of her taxing power and it was hoped that at least an attempt would be made to effect by agreement that which could actually be effected without agreement. We suggest that it is not yet too late to get back to the ideal of the Sirois Report. We refuse to believe that any substantial objection can be taken to a formula which goes no further than to offer reasonable assurance that adequate educational and social services shall be enjoyed by everyone regardless of the geographical accident of residence in one part of the nation or another.

As already stated, we in Saskatchewan were disappointed that the Sirois Report was not made the basis for discussion at this Conference. Instead, the Dominion has proposed financial support for the provinces in the form of subsidies based very largely on population. We suggest that this represents an abandonment of the national outlook and a partial capitulation to sectionalism and provincialism. We wish to raise several objections to this proposal.

Criticize Proposed Subsidy

Our first point is that the subsidy based on population is unscientific. What are subsidies paid for? Obviously because the provinces need the money. What do they need the money for? Equally obviously, to supply services and perform

the constitutional functions of the provinces. We press the point strongly that a subsidy based on population does not measure the need of the provinces or of any province. There is no essential relationship between population and needs. For one thing, costs of administration usually vary greatly with the density of population. For another thing, the population in one area may have a relatively low, in another a relatively high, tax-paying capacity. So it seems to us that this type of subsidy departs from the ideal of a national standard which appears so desirable. Our second objection lies in this, that the present proposals give an altogether improper recognition to provincial boundaries. We are prepared to demonstrate by incontrovertible evidence that these proposals will result in an unequal standard of social services for the different provinces—either that or a burden of taxation in some of the provinces out of all proportion to the capacity of the people to pay. It is our contention that such a result largely negatives any thought of a national outlook.

We suppose it will be agreed by all that governments exist for the purpose of satisfying human needs. If so, why should the people on one side of a provincial boundary fare better than on the other side, in this nation, Canada? What is so sacred in a provincial boundary? Do the citizens of Halifax, or Montreal, or Toronto, or Winnipeg, or Regina, or Vancouver, rate better social services from their respective provinces just because the taxable wealth is largely localized within those cities? Is the boundary of the city not equally sacred? Or do we isolate the wealthy portion of a city and give most of the social services to the high tax-paying areas? Of course we do nothing of the kind. Why, then, should so much attention be paid to provincial boundaries? It is submitted that the provinces should properly be regarded as convenient areas of local government whose traditions and beliefs may be properly recognized and respected rather than as geographical areas where the wealth of the nation may be hoarded.

Our third point is collateral to the second and it is this: That the wealth to be distributed, the fund that may be thought of as the proceeds of Income Taxes, Succession Duties and Corporation Taxes, is not the wealth of the provinces but the wealth of the nation. This was very well expressed in Volume II of the Sirois Report at page 109 as follows:

. . . the taxes recommended to be left exclusively to the Dominion apply in large part to income and wealth which is national in character, in substantial measure the product of national policies, and which cannot be identified with purely local effort or local needs. Nevertheless, under the present system, the bulk of this income and wealth is concentrated in a few localities. Consequently, a few provincial governments are in favourable positions in respect to reserves of taxation, and others in very inferior positions.

To this view we subscribe and in our province we are under no illusions as to the part that certain national policies have played in the concentration of national wealth in certain areas. We do not criticize these policies at this time. But if trade, commerce, the tariff, monetary policy, and so on, are to be dealt with nationally, the nation should see to it that the citizens of no area fall below the national average in the matter of social and educational services.

For these reasons we do not like the proposed method of calculating subsidies to the provinces although we are still prepared to yield exclusive jurisdiction to the Dominion in respect to the three tax fields mentioned in the proposals, provided satisfactory financial arrangements for the provinces can be reached.

In this connection we are prepared to be more specific. Although we would prefer the formula of the Sirois Report to the present proposals of the Dominion, nevertheless we are prepared to accept the per capita subsidy—or some modification thereof—provided two definite principles are likewise agreed to by the Dominion and the other provinces.

Adjustment Grant Urged

The first principle which we advance on behalf of the Province of Saskatchewan as a condition of our acceptance is recognition of the adjustment grant based on fiscal need as a supplement to the proposed per capita subsidy. We are prepared to demonstrate that the proposed subsidy will not be sufficient to enable the province to provide educational and social services up to the Canadian average without resorting to taxation far more severe than the Canadian average based on capacity to pay. This adjustment grant would do two things: It would give some assurance that in normal years the provincial services will not be permitted to fall below the Canadian average; it would also make at least partial provision in advance against the hazards to which our province is particularly vulnerable—namely, drought and low prices for our primary products. Experience has taught that it is impossible for the province to maintain anything like proper services in abnormal years.

It is our understanding that this adjustment grant would be calculated annually. In large measure it would take the place of both the adjustment and emergency grants as recommended in the Sirois Report. The subsidy as defined in the Dominion Proposals might conceivably be described as an adjustment grant but, as it stands, it is not satisfactory to us since it would leave Saskatchewan in a particularly vulnerable financial position and since it is not in our opinion calculated on a sound basis from the national standpoint. We propose one type of subsidy for all the provinces calculated on the basis of fiscal need which will look to the maintenance of services in all the provinces in good years and in bad years, up to the Canadian average. Each province, within the field of its constitutional limitations and obligations would have a choice as to the manner in which the subsidy should be spent, it being assumed that a fair level of efficiency in administration would be maintained.

We feel that we may reasonably be insistent regarding this adjustment grant. And it may be added that we are prepared to prove that our present provincial and municipal tax burden is far heavier than the Canadian average and that it is perhaps the heaviest in Canada. We do not relish the prospect of being compelled to continue a provincial consumers tax, known in Saskatchewan as the education tax, in order that our social services may come appreciably close to the Canadian average.

As to the details of the adjustment grant we do not propose to go further at this time except to assume that it would be calculated by an independent body of qualified persons. Nor would there be any objection to describing the grant in normal years as an adjustment grant and the payment to meet definitely abnormal conditions as an emergency grant.

Economic Security for Self-employed

The second principle which we wish to put forward on behalf of our province relates to the position of the so-called self-employed. The adjustment grant will give some assurance that normal governmental services will be maintained, even in abnormal years, but it goes no further than that when the economic security of the individual is considered. On the other hand, the proposals of the Dominion Government contain provisions for ordinary employees through unemployment insurance and assistance and through timed construction programs but are silent regarding assistance to large groups such as farmers and other primary producers. These groups may be reduced to a helpless economic position through depression or drought, or both.

This is a very serious matter for the Province of Saskatchewan where there are few industrial or other workers to claim unemployed benefits, but where well over 100,000 farmers and their families may be in at least as bad a

position as unemployed industrial workers. To indicate just how serious the situation may become it should be pointed out that 50 per cent of provincial expenditures went for relief in 1937 and the situation in a number of other years was nearly as bad.

We feel, therefore, that our province must insist on adequate provision for the security of the self-employed, provision at least comparable to that projected for ordinary employees. This, it is suggested, should take the form of (a) a guaranteed floor under prices, or some equivalent arrangement; (b) a crop insurance scheme, or, in the alternative, an extension of the present Prairie Farm Assistance Act benefits.

We anticipate that most other provinces will desire this form of security for the self-employed, either in agriculture or in other primary industries. There would seem to be as much reason for the employment of federal funds to achieve security for these groups as to secure the economic well-being of industrial workers.

If these two principles are endorsed, the Province of Saskatchewan is prepared to accept the Dominion proposals and enter into an agreement based thereon. This does not mean that we subscribe without reservation to all the other proposals, as for instance the concept of employables that has been advanced, but we feel that agreement can be reached on all other matters through informal discussion at the Committee stage. There is certainly no detail in the other proposals which should prove a serious stumbling block to the concluding of an amicable and progressive agreement. But we wish to emphasize that the principles put forward in this part are deemed to be fundamental.

PART II

PUBLIC INVESTMENT

As part of its plans to stabilize employment and income at a high level, the Dominion Government has proposed a joint Dominion-Provincial program of public investment. The program which it suggests appears to be based on three main principles:

- (i) The greater part of the program would be put into effect only in periods of declining economic activity;
- (ii) Public investment must not compete with or replace private investment;
- (iii) Public investment projects must be useful and must be efficiently executed.

As the Dominion has itself conceded, such a program would not in itself be sufficient to solve an unemployment problem. Nevertheless it forms a part of the reconstruction plans and the Saskatchewan Government is prepared to co-operate with the Federal Government to the utmost of its ability in a public investment program. It is believed that a co-ordinated public investment program can pay substantial dividends to the people of Canada, not only by increasing employment, but by developing and conserving the wealth of the country as well.

Enunciated Principles Not Entirely Acceptable

While the Saskatchewan Government is prepared to accept the Dominion Proposals regarding public investment and finds much to commend in them, it feels obliged to make certain observations regarding principles which have been put forward as fundamental. For instance, it is difficult to accept the theory that governments should be expected to develop the resources of the country only up to the point where it becomes profitable for private enterprise to step in. We are prepared to admit that the interests of the public can be furthered in many instances by private investment if it is adequately regulated to prevent improper exploitation of the resources. But we think that every prospective development should be examined on its merits to determine whether the public interest can be best served by public or by private investment. If public investment is the choice, we submit that the Dominion should be prepared to assist the project, irrespective of whether or not it might be classed as a public utility or commercial enterprise. To reason otherwise seems to involve the adoption of a principle of doctrinaire individualism.

In regard to the timing of public investment the Government of Saskatchewan is not convinced that industrial depressions and unemployment should be the only consideration. There are, it is submitted, many public investment projects which are needed immediately and should not have to wait until economic activity lags. Some, such as reclamation and irrigation projects, can be an important factor in preventing economic catastrophes for agricultural producers. Others, such as recreational and educational facilities, are socially useful projects which the people of Canada should not have to do without until a depression occurs. Still others, such as hospitals, are vital to the development of the health insurance scheme proposed by the Dominion.

The Saskatchewan Government has no quarrel with the general division of responsibility for developmental work suggested by the Dominion in its Proposals (p. 23ff). It agrees that the Dominion should assume responsibility for projects which can be carried out effectively only on a national scale and for those which are of concern to the national welfare and which have interprovincial

effects. It welcomes the Dominion's offer to pay 20 per cent of the cost of provincial and municipal projects which fit in with federal timing, but strongly urges that this assistance should be extended to socially useful projects which may be required before a timed program is inaugurated. It suggests, furthermore, that a Dominion contribution of 20 per cent may prove too small to secure co-operation from the local authority. In a depression period the financial resources of municipalities or even provinces may be very slender indeed.

It must also be emphasized that a general unemployment index may prove a singularly poor guide for measuring the need of construction projects in an agricultural province such as Saskatchewan. In this province the greatest distress may come through partial or complete crop failure in a period when industrial employment is at a high level. This is a difficulty which should receive further consideration but which obviously can be settled satisfactorily.

Public Investment in Saskatchewan

The Saskatchewan Government has endeavoured to calculate the probable extent of public investment in the province of Saskatchewan in a five-year period beginning January 1, 1946, in conformity with the Dominion Proposals. For convenience there has been a general division under four heads: public works, highways, a natural resources development program, and municipal projects. Details have been avoided as far as possible but are available if required by the Conference.

An extensive investigation of the developmental needs of this province was made by the Saskatchewan Reconstruction Council in 1944. Their work has been brought up-to-date and forms the basis of a program of urgently necessary public investment which we believe should be undertaken in this province in the next five years to develop and conserve our natural resources. These projects, which are summarized below, divide into two groups:

- (i) Those for which the Dominion appears willing to assume responsibility;
- (ii) Those which are the responsibility of the province but for which Dominion assistance is required.

Special mention should be made of the proposed program of irrigation in Saskatchewan at this time. Irrigation is so definitely a matter relating to agricultural development that it has been considered proper to set out the details of the various projects in Part V. At the same time, irrigation, in the opinion of the Government, is a proper field for public investment, in fact the case seems particularly clear for the use of public funds in this connection. The success of Prairie Farm Rehabilitation Act activities has been conceded and it is strongly urged that these activities should be enormously expanded. In the national interest it is believed that the use of national funds is well justified in this field.

A. PUBLIC WORKS

A summary of a five-year program, including some 21 projects which may properly be classified as Public Works, together with the estimated cost of each, is given in this section. (The estimates of costs for the various projects do not include furnishings and equipment.) A comprehensive memorandum outlining the details covering each specific project and sub-project has been prepared and is available to the Dominion-Provincial Conference if required.

The Government of Saskatchewan believes that in respect of many of these projects the contribution of the Dominion should be very substantially higher than 20 per cent. The University Hospital, in which a considerable proportion of the beds will be devoted to Dominion cases, serves to illustrate this point, as do the proposed extensions to the Colleges of Engineering and Agriculture made necessary by the heavy influx of veterans under the rehabilitation training program of the Dominion.

Summary

Project	Estimated Cost
1. New Mental Hospital	\$3,600,000
2. School for Mental Defectives	2,000,000
3. Home for Aged Mental Patients	480,000
4. Psychiatric Division Hospital	100,000
5. New Buildings at Battleford Mental Hospital:	
(a) Kitchen and Dining Room.....	240,000
(b) Repair Shop.....	60,000
(c) New Power Plant	150,000
(d) Addition to Administration Building	75,000
(e) Cattle Barn	30,000
6. New Construction at Weyburn Mental Hospital:	
(a) Improvements to Water Supply	400,000
(b) Staff Residence	210,000
(c) Nurses Home	250,000
(d) Cattle and Horse Barns	35,000
(e) Structural Alterations	200,000
7. Residences at Battleford and Weyburn Mental Hospitals	50,000
8. University of Saskatchewan:	
(a) Medical College Building	820,000
(b) University Hospital	2,600,000
(c) Nurses Home	250,000
(d) Extension to Engineering Building	280,000
(e) Extension to Agricultural Building (Soils and Dairy Laboratories)	220,000
(f) Arts Building.	1,250,000
(g) Library and Archives Building	300,000
(h) Four Agricultural Schools	1,000,000
(i) Geology Extension to Engineering Building	30,000
(j) Ceramics Extension to Engineering Building	30,000
9. Extensions to Sanatorium at Fort San:	
(a) Building for Maximum Benefit Patients.....	150,000
(b) Operating Rooms, Maternity Case Rooms and Dental Office	35,000
(c) New Power House.....	250,000
(d) New Residences	60,000
10. Residences at Prince Albert and Saskatoon Sanatoria	60,000
11. Home for the Aged and Infirm	220,000
12. Home for Girls	120,000
13. Industrial School for Boys	180,000
14. Provincial Law Courts and Museum	1,200,000
15. Court House, Saskatoon	300,000
16. Office Building, Legislative Buildings	400,000
17. Addition to Provincial Gaol, Regina	160,000
18. Legislative Buildings, Improvements and Alterations	400,000
19. Gymnasium at the Normal School, Saskatoon	50,000
20. Office Building, Prince Albert	150,000
21. Branch Laboratory, North Battleford	20,000
22. Northern Administrative Area:	
(a) Five day-schools and three teacherages	50,000
(b) Two residential schools	400,000
Total	\$18,865,000

2. HIGHWAYS

Complete plans for a five-year federal-aid program of highway and bridge construction in the Province of Saskatchewan have been drawn up by the Department of Highways and Transportation. The estimated cost of the program is approximately \$53 millions and full details of each project will be available to the Dominion-Provincial Conference if required.

In addition to the above the Province has completed plans for a five-year highway program to be financed entirely out of provincial funds. This program includes expenditures of upwards of \$5 millions annually or a total of \$26.8 millions over the five-year period for the construction and maintenance of provincial highways, the replacement of bridges, etc.

**Proposed Federal Aid and Provincial Highway Program
Five-Year Period Commencing May 1, 1946**

Fiscal Year	Federal Aid Program Highways and Bridges	Provincial Program		Total Provincial Expenditure, not including Prov- ince's share of Federal Aid Program
		Highway Construction	Highway Main- tenance, Bridges Ferries, Surveys	
1946-47	\$ 6,372,250	\$ 2,400,000	\$ 2,680,000	\$ 5,080,000
1947-48	9,659,000	2,400,000	2,780,000	5,180,000
1948-49	13,393,500	2,400,000	2,880,000	5,280,000
1949-50	12,000,000	2,400,000	3,080,000	5,480,000
1950-51	12,000,000	2,400,000	3,380,000	5,780,000
	<hr/> \$53,424,750	<hr/> \$12,000,000	<hr/> \$14,800,000	<hr/> \$26,800,000

The projects which the Government of Saskatchewan suggests should be undertaken with federal assistance during the next five years include the improvement of three trunk highways classified as "Highways of National and International Importance", the improvement of certain "Mining or Northern Development Roads," the construction of a limited number of grade separation projects, and the erection of a much needed traffic bridge over the South Saskatchewan River on Highway No. 4 north from Swift Current. The major portion of the proposed program for the next five years is the paving of the three trunk highways above mentioned.

National and International Highways

Highway project No. 1 under the heading of "Highways of National and International Importance," is designated as Highway No. 1 in this province and forms the Saskatchewan section of the Trans-Canada highway. It serves the cities of Regina, Moose Jaw and Swift Current and is a link in the direct route from Winnipeg, Manitoba, to Calgary, Alberta.

The second highway, under the heading of "Highways of National and International Importance," is a north and south highway through the central portion of the province providing access from the highway system of the State of North Dakota and from the Trans-Canada highway to the Prince Albert National Park, this park being situated near the geographic centre of the province. Such a highway would have as its southern terminal the town of North Portal and would serve the cities of Weyburn, Regina, Moose Jaw, Saskatoon and Prince Albert. North Portal is the most important port of entry along our southern boundary, and such a highway would take care of the greater portion of international traffic between this province and the United States of America.

The third highway, under the heading of "Highways of National and International Importance," is the construction of an east and west highway serving the cities of Yorkton, Saskatoon and North Battleford, this highway extending from the Manitoba-Saskatchewan boundary, near Roblin, Manitoba, to the town of Lloydminster on the Saskatchewan-Alberta boundary, a distance of approximately 455 miles. This highway is part of the most direct route from Winnipeg to Edmonton, and thence northwestwardly to a junction with the Alaska highway.

Mining or Northern Development Roads

Regarding "Mining or Northern Development Roads," the Federal Government has already contributed sixty-six and two-thirds per cent of the cost of improvements undertaken on roads of this nature, as it was considered to be in the interest of Canada to develop natural resources, particularly the mineral wealth in the Precambrian Shield area, in the northern part of this province. Federal-Provincial agreements covering the improvement of "Mining Transportation Projects" were entered into during the years 1937, 1938 and 1939.

3. NATURAL RESOURCES DEVELOPMENT PROGRAM

(a) DOMINION PROJECTS (i.e., suggested activities for which the Dominion is prepared to consider the assumption of full responsibility):

(1) Geological Mapping Program

Saskatchewan is almost wholly dependent on the Canadian Geological Survey for systematic geological mapping of the province. The Government of Saskatchewan favours a continuation of this arrangement, as it recognizes that the Canadian Geological Survey is in a position to co-ordinate the work for all of Canada and has the necessary trained and experienced staff. The Dominion appears willing to continue geological surveys to designated levels of intensity. The Mines Branch of the Saskatchewan Department of Natural Resources and Industrial Development being in close touch with prospecting work, has carefully reviewed the entire field and indicated those areas which should receive first consideration in any future mapping work. It has also recommended that some geophysical work should be undertaken in the Kamsack area as an aid to oil and gas development work. The proposals are outlined below, with estimated costs in brackets.

Mapping Program for Precambrian Area 1946-48

1946. Pelican Narrows Sheet—long. 102°-104° and lat. 55°-56°

Considerable prospecting activity was carried on in this area in the 1945 season and there is a need for a basic geological map of the area on a scale of 4 miles to 1 inch. (\$15,000)

1946. Extreme North-East Corner of the Province—long. 102°-104°, lat. 59°-60°

A favourable belt of prospecting territory is reported to lead into this area from the north-west territories. The search for pitchblende is expected to extend eastward from Goldfields during 1946 and the mapping of this quadrangle on a 4 mile to 1 inch scale may provide important basic information for this development. (\$15,000)

1946. Detail Mapping

The north shore of Lake Athabasca between Fond-du-lac and Stoney Rapids was vertically photographed in 1945 which will provide the proper base for detailed mapping on a scale of 1 mile to 1 inch, in the vicinity of the gold and nickel occurrences 20 miles east of Fond-du-lac at Robillard Bay. This will provide an aid to the detailed prospecting of the area. (\$10,000)

1947. McCusker River—long. 108° - 110° , lat. 55° - 56°

The contact between the Precambrian and younger Paleozoic and Mesozoic passes through the area. The Mesozoic horizon which at McMurray contains the tar sands is known to lead into this area. (\$15,000)

1947. Lake Wapawekka—long. 104° - 106° , lat. 54° - 55°

A deposit of high grade kaolin was investigated in 1945 by the department on the south shore of the above lake adjacent to the Precambrian-Mesozoic contact. The area appears to warrant further study, and a geological map of the quadrangle on scale of 4 miles to 1 inch would be a considerable aid (\$65,000)

1947 & 1948. Detailed Mapping—Amisk Lake Area—long. 102° - $102^{\circ}40'$ lat. $54^{\circ}30'$ - $54^{\circ}50'$

The detailed work in Saskatchewan at Flin Flon should be extended to include the important Greenstone Area at Amisk Lake where a number of important gold occurrences are indicated. (\$20,000)

1947 & 1948. Waddy and Windrum Lake Area—long. $103^{\circ}40'$ - $140^{\circ}18'$, lat. $55^{\circ}55'$ - $56^{\circ}20'$

This area includes a greenstone belt 30 miles long and 4 to 8 miles wide. There was considerable prospecting activity in this area in 1945 and three important gold occurrences were staked. A copper deposit on Lake Nistoassine was staked some years ago. The area deserves some detailed study, and geological mapping on a scale 1 mile to 1 inch is warranted. (\$20,000)

1948. Detailed Mapping—Stoney Rapids Area (\$10,000)

1948. Methy Lake Area—long. 108° - 110° , lat. 56° - 57°

Little is known of this area. A large granite area lies to the East, but two bands of altered volcanics are known to lead into the area from the north. (\$15,000)

1948. Wollaston Lake—long. 102° - 104° , lat. 58° - 59° —mapping on 4 mile scale

A large area of hornblende schists extends into this area from the Reindeer Lake Sheet on the South. (\$15,000)

The remaining area of the Precambrian is known to be lacking in bedrock outcrops being underlain by presumably unproductive late Precambrian Athabaska Sandstone.

Mapping Program for Plains and Forested Area—(lat. 54° to 49°) 1946-48

1946. Pasquia Hills Area—long. $102^{\circ}45'$ - 103° , lat 53° - $53^{\circ}45'$

The vertical photography of this area has been completed, and the area is now accessible by means of summer logging roads from Hudson Bay Junction and Carrot River Village. Bedrock outcrops are fairly extensive in the central part. Coal is reported on the Carrot River, as well as Salt Springs. Drilling for oil and gas was done in 1945 on the Torch River to the northwest. The Etomami and Mafeking 4 mile sheets adjoin to the south. This area deserves immediate consideration for broad scale mapping on 4 miles to 1 inch. (\$15,000)

1946. That area of the Province bounded by latitudes 54° to $50^{\circ}30'$ and longitude 107° to 101° is practically devoid of bedrock outcrops. Satisfactory geological maps cannot be made unless some information is obtained from the bedrock by bore holes. Considerable information has been obtained by companies in search of oil and gas, and is on file with the department in Regina. This information is available for study by members of the Geological Survey, and

would undoubtedly add considerably to the knowledge of the area for preparation of maps. It is suggested here that the Geological Survey make available one of their men to study and correlate this information. (\$3,000)

1947. There is a need for a correlation and compilation of data on the coal resources of the province with special consideration to the matter of coal reserves of the South part of the province. (\$20,000)

Geophysical Work, 1946

Important showings of gas have been obtained at a depth of 1,600 to 2,000 feet in limestone during recent drilling in the Kamsack area of Eastern Saskatchewan. It is suggested that the Geological Survey consider conducting geophysical work in this area as an aid to oil and gas development work. (\$20,000)

Total cost of geological mapping program, \$258,000.

(2) *Basic Survey Program*

Adequate and accurate maps of the province are necessary as a groundwork for geological and prospecting work, the administration of parks, forests and game preserves, and the planned development and conservation of natural resources. The Dominion has indicated that it will be fully responsible for basic surveys and aerial photography to designated levels of intensity. The Saskatchewan Government accordingly recommends that in the next five years the following survey projects should be undertaken by the Dominion:

- (i) Base and meridian line surveys of
 - Manitoba-Saskatchewan Boundary—360 miles.
 - Third Meridian north of Township 72—325 miles.
 - Other Meridian lines, base lines and Township outlines—1,840 miles.

This work could be done in the winter. It is estimated that the work, excluding the boundary survey, would cost \$342,800 over a period of five years and provide employment for 76 persons, including several graduates in Civil Engineering who would receive valuable training leading to qualification as Land Surveyors. The cost of the boundary survey is not included, as it would be under the jurisdiction of the Manitoba-Saskatchewan Boundary Commission.

(ii) Aerial Photography. The oblique photography of the northern area of Saskatchewan should be completed in order that the whole province may be covered by maps of the same type. It is estimated that mapping of the following areas could be done in one year at a total cost of \$190,000:

	Estimated Cost
Bear Hills.....Long. 104°-106°.....	\$ 45,000
Lat. 54°-55°	
Methy Lake .....Long. 108°-110°	45,000
Lat. 56°-57°	
Geikie River.....Long. 104°-106°.....	30,000
Lat. 57°-57°30'	
William River .....Long. 108°-110°	25,000
Lat. 58°-58°30'	
Beaver River.....Long. 108°-110°.....	45,000
Lat. 54°-55°	
 Total	 \$190,000

(iii) Vertical Photography. Since vertical photography results in more useful maps than oblique photography, it is recommended that the whole province should gradually be re-photographed by this method. First attention should be given to areas in which prospecting is or is likely to be active. As a first year's program, the following is suggested:

	Estimated Cost
(a) Precambrian Area	
Mackay and Sulphide Lake— Long. 104°40'-105° Lat. 55°15'-55°32'	\$ 40,000
Windrum and Waddy Lakes Area— Long. 103°40'-104°18' Lat. 55°55'-56°20'	40,000
Amisk Lake Area— Long. 103°—Man.-Sask. boundary Lat. 54°25'-55°	50,000
Cumberland— Long. 104°—Man.-Sask. boundary Lat. 54°-54°25'	60,000
Grease River Valley— Long. 104°-106° Lat. 59°30'-60°	50,000
(b) Plains Area	
Red Deer River— Long. 101°45'-102° Lat. 52°45'-53°15'	10,000
Twelve Mile and Willow Bunch Lake— Long. 105°10'-106°25' Lat. 49°-50°	20,000
Unity-Lloydminster— Long. 108°-110° Lat. 52°-53°30'	30,000
Estevan—Long. 102°-104° Lat. 49°-49°20'	8,000
	<hr/> \$308,000

(3) *Ground Water Survey*

There is a pressing need for resumption of the ground water survey which the Canadian Geological Survey conducted up to 1935. It had covered 322 municipalities by that time. A survey of the ground water supplies in 130 of the remaining settled municipal units is needed to guide persons seeking water for municipal, domestic and stock requirements. The need is urgent in 43 of these municipalities which have experienced drought conditions during the last three years. Particular attention should be given to a search for areas where conditions are suitable for the development of small scale irrigation projects from ground waters. The following three-year program is recommended:

Municipal Units to be Surveyed	Estimated Cost
First season—Nos. 341-352, 371-382, 404-411, 436-442, 469-472 (total 43)	\$20,000
Second season—47	18,000
Third season—40	15,000
	<hr/> \$53,000

(4) *Survey of Sodium Sulphate and Brine Lakes*

The Mines Branch of the Federal Department of Mines conducted field investigations on 72 brine lakes between 1921 and 1924. It published a Report (No. 646) in 1926 on the principal sodium sulphate occurrences. A further survey to include brine lakes not previously investigated is now recommended. It is estimated that this work could be completed in two years at a cost of \$20,000.

(5) *Forestry Conservation Program*

The Government of Saskatchewan recommends immediate consideration of the following forestry conservation program:

(i) Preparation of a forest inventory and of forest cover type maps of the forest area of the Province;

(ii) Initiation of a forest insect survey and a forest insect ranger service to include an entomological staff in North-Central Saskatchewan with a laboratory for identification, breeding of parasites and study of infestations and methods of control of forest insects;

(iii) Establishment of a station with adequate technical staff at the University of Saskatchewan to conduct research on silviculture and forest product utilization problems of interest to both government and industry;

(iv) Expansion of the Dominion Meteorological service in northern Saskatchewan to provide accurate local information on fire hazards during the seven-month period April 1 to October 31 each year.

(6) *Fisheries Conservation Program*

The Government of Saskatchewan recommends a comprehensive biological survey covering species, population, feeding conditions and infestation of fish in the main fishing lakes in the northern section of the Province.

(7) *Fur and Game Conservation Program*

The Dominion Government is urged:

(i) To initiate wild life surveys and biological studies, paying special attention to cycles and fluctuations of game and fur-bearing animals in Northern Saskatchewan;

(ii) To establish an extension service designed to disseminate information on the conservation of wild life;

(iii) To establish additional fur rehabilitation areas for the Treaty Indians and to further develop those areas now set aside for this purpose.

(8) *Land Conservation Program*

The following projects, to be undertaken in the case of pasture projects after renewal of the agreement on an amended basis with P.F.R.A., are considered primarily as responsibilities of the Dominion since they have been rendered necessary as a result of unguided and wasteful settlement in the early development of the prairie region:

(i) (a) Large Community Pastures:

Years	Acreage	Estimated Cost
First Year.....	415,000	\$ 518,750
Second Year.....	769,500	961,875
Third Year.....	552,500	690,625
Totals.....	1,737,000	\$2,171,250

(b) Three hundred small pasture units of 2,560 acres each:

Years	No. of Units	Acreage	Estimated Cost
First Year.....	50	128,000	\$ 175,000
Second Year.....	75	192,000	262,500
Third Year.....	125	320,000	437,500
Fourth Year.....	50	128,000	175,000
Totals.....	300	768,000	\$1,050,000

(ii) Expansion of the Sutherland and Indian Head Nurseries with a nine-year program of tree planting at a total estimated cost of \$4,080,000, made up as follows:

Years	Planning and Preparation of Land	Planting	Trans- planting in Nurseries	Labour and Main- tenance	Plantings on Permanent Locations
1st.....	\$ 65,000				
2nd.....	70,000				
3rd.....	75,000	\$35,000			
4th.....		55,000			
5th.....			\$210,000		
6th.....				\$350,000	
7th.....				500,000	
8th.....					\$1,360,000
9th.....					1,360,000
Totals.....	\$210,000	\$90,000	\$210,000	\$850,000	\$2,720,000

SUMMARY OF 100 PER CENT DOMINION PROJECTS

Project	Period	Estimated Cost
1. Geological Mapping Programme.....	3 yrs.	\$ 258,000
2. Basic Survey Programme.....	5 yrs.	840,800
3. Ground Water Survey.....	3 yrs.	53,000
4. Mineral Lakes Survey.....	2 yrs.	20,000
5. Forestry Conservation Programme.....		No estimate
6. Fisheries Conservation Programme.....		No estimate
7. Fur and Game Conservation Programme.....		No estimate
8. Land Conservation Programme.....	9 yrs.	\$7,301,250
Total.....		\$8,473,050

(b) PROVINCIAL PROJECTS (i.e., suggested activities for provincial government is primarily responsible and which the Dominion is prepared to consider assisting provided specific agreements can be reached):

(1) *Surveys*

(i) Retracement and restoration of original surveyed lines and monuments or markers governing the boundaries of sections and quarter-sections. The work would be confined to areas, largely those first surveyed, where practically all of the original monuments or markers have been lost. A five-year program is contemplated at a cost of \$168,000 for the first year (including a non-recurring expenditure of \$41,000 for equipment) and of \$127,000 for each of the succeeding years, or a total expenditure of \$676,000. The work can be expanded or contracted without seriously affecting the cost per mile.

(ii) Surveying and marking with permanent monuments the boundaries of parks, game preserves, provincial forests, etc. The work includes some parks, etc., the boundaries of which have never been surveyed on the ground and the re-survey of others whose boundaries cannot now be found. The project will greatly facilitate administration of reserved areas and provide information on timber, soil, minerals, water areas, and suitability of certain lands for agricultural purposes. A five-year program is contemplated at a cost of \$93,000 for the first year (including a non-recurring expenditure of \$21,000 for equipment) and of \$72,000 for each subsequent year, or a total expenditure of \$381,000 for the five years.

(2) *Protection and Management of Forests*

A detailed and comprehensive forestry program, complete with maps, has been supplied to the Dominion Forester at Ottawa. A five-year program covering four specific areas is contemplated, with costs as follows:

	Total Estimated Cost
Fire Protection and Prevention	\$2,123,020
Silviculture	3,798,334
Trucks and Main Roads	300,000
Resorts and Recreation	268,920*
Public Relations	109,726
Grand Total	\$6,600,000

*Includes \$151,500 included in Parks Program below.

(3) *Provincial Parks*

A five-year program for the development and improvement of eight provincial parks has been worked out in considerable detail, with estimated expenditures as follows (of which approximately 60 per cent would go directly for labour and 40 per cent for materials and equipment):

First year	\$ 695,000
Second year	596,000
Third year	450,000
Fourth year	405,000
Fifth year	- 355,000
	<hr/>
	\$2,501,000

(4) *Fisheries Development*

A two-year program, including construction of a modern fish hatchery in the Northern part of the province and of an experimental station to work on canning and smoking processes, utilization of fish products, fish oil, meal, etc., is planned. The total estimated cost is in the neighbourhood of \$122,000.

(5) *Wild Life and Fur Conservation and Development*

A three-year program of survey and construction work on dams and flood control projects designed to increase the beaver and muskrat population and to protect fish spawning areas is planned for seven specific blocks or areas at a total cost of \$282,850, together with the establishment of two game farms for propagation of game birds (cost \$20,000) and increased predator control (cost \$40,000).

(6) *Development of Mineral Resources*

Under this heading the Government of Saskatchewan plans:

- (i) A two-year project to cover a comprehensive survey and report on the clay resources of the Province, their occurrence, distribution and properties—estimated cost \$19,500;
- (ii) A two-year project to cover pilot plant studies on producer gas units for development of the ceramics industry and utilization of Saskatchewan lignite coal—estimated cost \$78,000;
- (iii) A five-year project of prospector training classes.

(7) *Air Transport and Radio Communication—
Northern Saskatchewan*

- (i) Air transportation plans include: (a) Sea-plane base at Prince Albert, involving construction of docks and a concrete ramp for serving aircraft; (b) Landing strip at Lac la Ronge;
- (ii) Plans for radio communication include a complete reorganization of the Government's present inadequate radio equipment in Northern Saskatchewan. The proposed program would cover a three-year period at an estimated cost of \$32,650 and would bring communications in the north up to a standard more nearly appropriate to the present stages of development in forestry, fishing and mining.

(8) *Land Development*

Re-establishment: This project involves the rehabilitation of approximately 2,000 farm families living on sub-marginal land and usually requiring financial assistance from government agencies to live. The problem is clearly a joint Provincial-Dominion responsibility as it is a direct result of unguided land settlement fostered by the Dominion Lands Act prior to the transfer of natural resources to the Province in 1930.

A five-year program of re-settlement follows:

Year	Families Re-settled	Estimated Cost
1st Year.....	250	\$ 575,000
2nd Year.....	350	875,000
3rd Year.....	600	1,500,000
4th Year.....	400	1,125,000
5th Year.....	400	1,100,000
Totals.....	2,000	\$5,175,000

SUMMARY OF DOMINION-PROVINCIAL PROJECTS

Project	Period	Estimated Cost
1. Surveys.....	5 years	\$ 1,057,000
2. Forest Protection and Management.....	5 years	6,600,000
3. Provincial Parks.....	5 years	2,501,000
4. Fisheries Development.....	2 years	122,000
5. Wild Life and Fur Conservation.....	3 years	342,850
6. Development of Mineral Resources.....	5 years	132,500
7. Air Transportation and Radio Communications—Northern Sask.....	3 years	36,650
8. Land Development.....	5 years	5,175,000
Total.....		\$15,967,000

4. MUNICIPAL PROJECTS

For the past fifteen years there has been very little municipal spending on construction projects in Saskatchewan. During the thirties the municipalities were for the most part financially unable to make public improvements, while during the war years the shortage of both labour and materials caused a postponement of most proposed projects, some of which were urgently needed. With the ending of the war, however, there is every indication that the municipalities are anxious to begin public improvements in considerable volume if suitable financial arrangements can be made.

The Saskatchewan Reconstruction Council, which reported to the Government in August, 1944, made a detailed study of the need of public buildings and other improvements in the municipalities. This study has been supplemented by investigations of the Department of Reconstruction and Rehabilitation. In the result the following estimate of building requirements is made:

Cities.....	\$26,400,000
Towns.....	4,750,000
Villages.....	2,000,000
Rural Municipalities.....	3,000,000
School Buildings.....	3,000,000
Total.....	<hr/> \$39,150,000

This is an estimated five-year program. A considerable portion is so urgently needed that it will be proceeded with in any event. On the other hand it should be pointed out that the bulk of this program will not be proceeded with unless substantial financial assistance is received from senior governments and unless loans may be secured at favourable interest rates.

Proposals Unsuitable for Municipal Needs

It may be doubted whether the offer of assistance for timed projects contained in the Dominion proposals will be taken advantage of by the municipalities to any great extent. This is particularly true of the suggestion that the Dominion pay one-half of the cost of preparing plans; for most of these projects being small the chance of getting twenty-five or fifty dollars of Dominion funds will offer little incentive to early action. It is believed, therefore, that a drastic revision of the Dominion proposals will be necessary if the municipalities are to play any substantial part in a program of public spending as a method of meeting problems of unemployment in the future.

At the present time there is a very insistent demand in most urban municipalities for the construction of community recreation centres. These are definitely a part of a national fitness program and there seems to be a special reason for including them in any plan of public spending. But it should be repeated that the Dominion proposals must be made more attractive if any real assistance is to be given, particularly in the case of the smaller municipalities. It is also imperative that some arrangement be made whereby these municipalities may secure funds at a lower rate of interest if they are to be in a position to co-operate in a program of public spending.

PART III

HEALTH SERVICES

It is now generally recognized that adequate health services can be brought within the reach of all sections of the population only by organization and planning and the pooling of risks and resources. The people of Saskatchewan learned this many years ago when necessity forced them to develop municipal doctor and hospitalization schemes. In other countries, health insurance schemes of one kind or another have been adopted to spread the costs of illness more equitably. Lack of national jurisdiction over health has delayed action along this line in federal countries such as Canada, Australia and the United States.

The Government of Saskatchewan welcomes the Dominion Proposals for a national health program for Canada. *Although health is clearly a matter of provincial jurisdiction, we recognize that a proper equalization of resources for health services can be achieved only through federal assistance to the provinces.* So essential do we consider Dominion-Provincial co-operation in this field, that we strongly urge full consideration of the health proposals irrespective of whether or not agreement is reached on the other Dominion proposals.

In our opinion, the essentials of an adequate health program are three-fold:

- (i) Adequate facilities and trained personnel so located and organized as to make the best in modern preventive, diagnostic and therapeutic health services available to all the people;
- (ii) A means of financing these services which will distribute the costs as widely and equitably as possible, so that the services may be obtained at need with the removal of all financial barriers;
- (iii) A planned and well-organized program that will assure the best possible use being made of these services.

Sick Benefits Urged

We feel that it should be possible to achieve these objects within the framework of the Dominion Proposals. There is, however, one serious gap in the federal Government's scheme. It makes no provision for the payment of "sick benefits" or compensation for loss of income due to illness. The loss of income not only affects the welfare of the individual and his family but it can impede recovery by causing worry. The fear of such a loss often makes a person delay seeking treatment for illness. No social security program is complete without protection for loss of income through illness. The Beveridge Report in Great Britain and the Wagner-Murray-Dingell Bill in the United States both include sick benefits in the social security schemes they propose.

Aside from this omission, we consider that the general principles of the Federal Proposals are acceptable. There are, of course, some details which we would like clarified or altered. They are discussed below under specific headings. In view of the Dominion Government's emphasis on the flexibility of the plan to permit adaptation to local circumstances, it should not be difficult to work out arrangements which will be satisfactory to all parties. We are particularly anxious that the plan should be sufficiently flexible to permit incorporation of existing provincial programs such as our cancer control program and our free medical services for old age pensioners and other groups.

1. HEALTH INSURANCE

The Federal Proposals regarding health appear to be predicated on the following:

(i) That a health insurance program would be a separate entity, administered and financed separately from other aspects of a health program. It would include diagnostic and therapeutic services, apart from those rendered under other sections of the health program;

(ii) That the Department of Public Health, from general revenue (apart from the health insurance fund), would continue to provide and administer:

(a) supervisory and preventive services;

(b) special diagnostic and therapeutic services which have become traditionally a public responsibility (mental illness, tuberculosis, venereal disease, etc.);

(c) diagnostic and therapeutic services for conditions which are felt to present special problems (crippled children, care of the blind).

This division may be suggested because of a desire that these special programs should not be left for the inauguration of a health insurance plan, but should be proceeded with as promptly as possible. We are prepared to accept this point of view at present, but think that consideration should be given to combining all the services under one administrative set-up in the future.

Planning and Organization

A grant of \$49,800 is offered to this province as part of an agreement whereby it undertakes to complete the preliminary arrangements for a health insurance scheme and submit a program of health insurance to the federal Government within a period of 18 months. The suggested amount appears to be adequate, particularly in view of the fact that considerable preparatory work has already been done and is being carried on now in this province.

Introduction by Stages

The Federal Proposals suggest the introduction of health insurance by stages. They stipulate that the minimum services included in the first stage (general practitioner, nursing and hospital care) must be available within a period of two years after a province has signed a health insurance agreement with the federal Government. Later stages may be introduced when the province is ready for them and may be restricted in their geographical coverage at first. We have three comments on these features of the plan.

In the first place, we do not feel that a visiting nursing service should be included in the basic minimum which must be established within the first two years. Its importance is debatable, and the current shortage of nurses would make it extremely difficult to establish such a service for Saskatchewan's scattered population within two years. Moreover, it is doubtful if this would be the best use to which available nurses could at present be put.

Secondly, it is not clear whether the minimum services to be introduced during the first two years are also considered a maximum for that period. It is quite possible that this province may find itself in a position to introduce some of the later stages such as dental care for children or laboratory services during the first two years and before facilities are available for complete general practitioner or hospital services. It seems to us that the federal Government should be prepared to contribute to the cost of these later-stage services whenever

they are ready to be introduced. They should not be delayed until problems of the first stage are solved, provided the first stage is completed within the required time.

Thirdly, we suggest that if a service can be introduced for a restricted geographical area, it should also be possible to introduce it for a restricted group in the population. If this principle is accepted, our schemes of complete medical services for old age pensioners and persons receiving mothers' allowances, etc., and of incomplete services for other groups would qualify for a federal contribution. The federal Government feels that an arrangement of this sort would be difficult to administer, but we submit that this should be a matter for the provincial governments to decide.

In view of the fact that any provincial scheme must be approved by the Federal Government before it becomes operative, we suggest that consideration might well be given to dropping the concept of a required first stage altogether. This would permit greater flexibility in adapting the plan to local needs.

Financing Health Insurance

The problem of financing either the federal or provincial share of health insurance costs is not discussed in the Dominion Proposals beyond a recommendation that the scheme should be contributory. The suggestion that a portion of the federal contributions might be financed by a "social security tax" raises peculiar administrative problems. It is likely that some of the provinces will find it necessary to cover their portion of the cost under any well-developed social security scheme by the levying of a special tax. No matter what the actual basis of the various Dominion and provincial taxes levied, and regardless of the fact that such taxes are being levied to cover different portions of the cost of services provided, in the eyes of the taxpayer one of these taxes will be regarded as duplication, and the public will feel that it is paying twice for the same service. If a contributory scheme is to be considered at all for any aspect of social security which the Dominion and the provinces finance jointly, we submit that the Dominion is the logical authority to collect the tax, since it will be the only authority collecting income tax under the fiscal proposals, but the proceeds of the tax should be shared with the provinces. *We believe however, that greater equalization of resources would be achieved if the Dominion raised its share of funds for social security measures from the general taxation of the country. The provinces would then be free to raise their share of the costs by any means they choose, including a special direct tax.*

It is suggested in the Dominion Proposals that a contributory scheme has certain advantages in terms of administrative efficiency, compliance and popular understanding of social security plans (p. 42). It seems to us that tremendous administrative problems would be involved in keeping records of contributions made by millions of people over a period of 40 or 50 years. Further problems would be met in attempting to collect contributions from the large numbers of self-employed persons in the population. Alternative provision would have to be made for persons whose contributions for one reason or another were insufficient to entitle them to benefits. The provinces would require assurance that the burden of providing for these individuals would fall equally on all governments. It would probably be necessary for the Dominion Government to make contributions on behalf of the unemployed.

Some account should be taken, moreover, of the economic effects of payment of contributions on a large scale. The federal Government has emphasized the necessity of maintaining purchasing power, but has apparently overlooked the extent to which its efforts in that direction could be offset by social security contributions. If the contributions are to be levied as a straight percentage of income or on some other flat-rate basis, they will have a disproportionate

incidence on the low income groups. For that reason their effect, apart from the other evil consequences normally attributed to regressive taxation, will inevitably be deflationary, especially in periods of declining investment. If, on the other hand, contributions are related strictly to capacity to pay, they are identical with income taxation and should be treated as such.

Basis of Federal Contribution

The federal Government's contribution to the cost of each benefit provided under a provincial health insurance scheme is to consist of the following:

- (i) A basic grant of one-fifth of the *estimated* cost of each service. The estimates were prepared by the federal Government and will be revised from time to time by agreement with the provinces;
- (ii) One-half the additional *actual* cost incurred by each provincial government for each benefit, but with a maximum federal contribution set for each service and an over-all maximum of \$12.96 per person when the complete program is in operation. (Proposals, p. 31).

In our opinion, the actual cost of the services to be provided is bound to vary considerably from the estimates made by the federal Government for at least three reasons.

In the first place, the estimates are based on surveys of what was being spent in 1938. The amount that will be expended when there is no financial bar is difficult to predict.

Secondly, the detailed breakdown into estimated costs for each service is open to question. It is extremely difficult, for example, to distinguish clearly between general practitioner services and other medical services or between visiting nursing and other nursing services. Consequently, the breakdown of costs for these services is likely to be very unreliable.

Thirdly, the costs are an over-all average for Canada. There will undoubtedly be considerable geographic variation, particularly if each service is considered separately. In most provinces it will likely be found that certain services cost much more than the estimates, while others cost less.

Revision of Estimated Costs

The Dominion Government states that the estimated per capita costs for each service will be revised on the basis of actual costs after three years. More detailed information should be given on the method of this revision. It would seem a difficult task and one with many pitfalls since some services will be provided in only one or two provinces and others in several by the end of the three-year period. Will the actual costs in each individual province be taken as a basis for the revision? We submit that until such time as all or at least a majority of the provinces are providing comparable benefits, no average cost can have any meaning. For example, if Ontario and Saskatchewan should be the first two provinces to institute certain services, it would be misleading for the small rural population of Saskatchewan to be averaged together with the much larger population of Ontario in assessing the average cost, particularly if the benefits offered were not the same.

The estimated costs and the average costs are of very great importance since the federal Government proposes to set a maximum for its contribution on the basis of these figures. In setting such maximum, the federal Government is in fact asking the provinces to bear 100 per cent of the risks arising out of any miscalculation in the estimates. Since the estimates were prepared by the federal Government and it has admitted that they will need revision, we feel that the Dominion should, in fairness, share the risks with the provinces by assuming at least 50 per cent of any excess in actual provincial costs over the general

Canadian estimate. In view of the fact that the Dominion shares to the extent of 50 per cent in any savings which occur when provincial costs are below the estimated cost, this request is not unreasonable.

If, however, the federal Government wishes to adhere to the policy of limiting its contribution to a maximum, we strongly urge that the maximum should be calculated on the basis of the costs, not of the individual benefits, but of all the approved benefits provided by a particular province. In this way some equalization of different provincial costs could be achieved. This point is illustrated by the following table:

Dominion Proposal for Calculating Federal Grant

First Stage	Estimated Cost	Actual Cost (Example)	Basic Grant (20% of Estimate)	Added Grant (50% of Additional Actual Cost to Maximum)	Total Grant
General Practitioner Services.....	\$ 6.00	\$ 5.00	\$ 1.20	\$ 1.90	\$ 3.10
Hospital Care.....	3.60	4.00	.72	1.44	2.16
Visiting Nursing.....	.60	1.00	.12	.24	.36
	10.20	10.00	2.04	3.58	5.62

Saskatchewan's Proposal for Calculating Federal Grant

	Estimated Cost	Actual Cost (example)	Basic Grant (20% of Estimate)	Added Grant (50% of Additional Actual Cost)	Total Grant
	\$	\$	\$	\$	\$
General Practitioner Services.....	6.00	5.00	1.20	1.90	3.10
Hospital Care.....	3.60	4.00	.72	1.64	2.36
Visiting Nursing.....	.60	1.00	.12	.44	.56
	10.20	10.00	2.04	3.98	6.02

The maximum, if any, should in our opinion apply only to the total contribution towards the sum of the services (\$6.12 for the first stage and \$12.96 for the complete plan.)

We feel, however, that unless adequate provision is made in the other proposals for assisting the province in times of depression, there should be a provision of this nature in the health insurance plan. At such a time contributory payments (if any) or other sources of revenue would decrease, but there would be no way of cutting the costs of the medical services provided under the plan. We would also like to suggest that the federal Government should pay the whole cost of services to those persons (e.g. unemployed employables) for whom it otherwise takes responsibility.

Benefits—First Stage

While, in general, we approve of the benefits which the federal Government proposes to include in the health insurance plan, we have a number of comments to make on them and would like to suggest the addition of one or two other services.

General Practitioner Service. This would be a basic service provided under any health scheme. The estimated cost of \$6.00 per capita is higher than what we consider the cost likely to be for Saskatchewan. As mentioned earlier, it is difficult to define this benefit, but we take it to include the services (exclusive of public health services) provided in the municipal physician agreements. The figures which we have lead us to believe these can be provided at a cost of \$3.00-\$4.00 per capita with adequate remuneration to the physician.

Hospital Care. This should also be a basic service. While at present the hospital facilities in the province are not adequate for a free hospitalization scheme, we consider that with sufficient financial assistance for capital expenditures they can be sufficiently increased within a short time. The estimated cost of \$3.60 per capita is a little less than our own estimates for a plan providing ward care and all necessary diagnostic and therapeutic procedures for in-patients. It seems particularly low when we consider that the estimate is intended to include amortization and interest on capital expenditures and on the necessary improvement in hospital facilities. We are continuing investigations into the probable cost of this benefit, but feel it will be closer to \$4 per capita.

Visiting Nursing Service. As mentioned above, the justification for including this benefit in the first stage is not clear. We do not consider it as basic as certain other services, and doubt whether it could be introduced in Saskatchewan within the first two years. We strongly urge that this benefit should not be included as a pre-requisite for the first stage. In our opinion, also, it is likely to cost considerably more than the estimated 60 cents per capita.

Benefits—Later Stages

Other Medical Services. When we are in a position to provide adequate consultant, specialist and surgical services in this province, it is likely that the cost will be higher than the estimated \$3.50 per capita. It will be necessary for either the patients or the professional personnel to do considerable travelling, and it seems only reasonable that these unavoidable costs should be included.

Other Nursing Services. This benefit should be defined more accurately. The estimated cost of this benefit is \$1.15 per capita, as compared to 60 cents for a visiting nursing service. Presumably neither of these includes public health nursing, while ordinary hospital nursing is included in hospital care. This leaves only private duty nursing to come under the heading of "other nursing services." The reasons behind the estimated distribution of costs are not clear to us. In our opinion, a rural visiting nursing service would cost more, not 50 per cent less, than private duty nursing.

Dental Care. The estimate of \$3.60 per capita for this service was arrived at by dividing the estimated cost of dentistry for children by the total population. The validity of this figure for each individual province depends partly on whether the proportion of children under 16 is the same in the province as in the country as a whole. Our own studies of the probable costs of dental care are incomplete, but we feel that the costs of a dental service for children in Saskatchewan would be higher than the Canadian average because of necessary travelling costs.

While we would not be in a position to provide dental care for all our residents, we assume that we would continue to provide it for those groups receiving it now, namely, old age pensioners, mothers' allowance cases, etc. As stated above, we believe that the Dominion should be prepared to contribute to the costs of any services provided for any age or population group under a provincial plan, and that it should not postpone contributing to these services until the first stage is fully in effect.

Pharmaceutical Service. It is stated that this service includes drugs, serums and surgical appliances. Surgical appliances should be defined more accurately, particularly as to the inclusion of prosthetic devices (artificial limbs, eyes, ears, etc.), hearing devices, etc. The estimate of \$2.55 per capita means little without such a definition.

Laboratory Services. This benefit presumably includes diagnostic services given by hospitals, clinics, etc., to out-patients. The estimated cost of 60 cents per capita would appear to be reasonable.

Other Benefits. Other benefits which should, in our opinion, be included in a complete health scheme and to which the federal Government should be prepared to contribute include the following:

- (i) Services provided on the prescription of medical men, but not included in the federal list. These are: physiotherapy, occupational therapy, orthoptics, medical social services, and devices not included under pharmaceutical devices;
- (ii) Optical supplies and services of optometrists.

2. HEALTH GRANTS

The federal Government has stated that the health grants will be made available as soon as the provinces reach an agreement with the Dominion and become eligible for the Planning and Organization grant. We submit that these grants should be available immediately. They are essential to enable the provinces to lay a solid foundation of public health services on which to superimpose the health insurance plan.

(1) *General Public Health Grant.* A grant of 35 cents per capita is offered by the federal Government as a supplement to existing provincial and municipal expenditures on public health services in order that the services may be improved and deficiencies overcome. An adequate program of local and provincial public health services in this province will require a considerable increase in expenditures. In order to make the program of maximum benefit, the following additional expenditures will be necessary within the Department of Public Health:

Administration (division of local health services).....	\$ 28,000
Statistics	20,000
Health Education.....	10,000
Child and Maternal Welfare Division.....	12,000
Industrial Hygiene Division	17,000
Dental Hygiene Division	10,000
Laboratory Services Division.....	130,000
	<hr/>
	\$227,000

This amounts to 25 cents per person, leaving only 10 cents per capita for the improvement of local services and other extensions of the program. We submit, therefore, that the proposed grant is inadequate, particularly in view of the fact that a minimum expenditure for local public health services (by the standards of the American Public Health Association) is \$1.00 per capita. The grant should be substantially increased because a solid base of public health services is very important for any health insurance plan.

(2) *Tuberculosis Grant.* This grant, amounting to \$180,000 for Saskatchewan, is intended to assist the provinces in providing free treatment for persons suffering from tuberculosis. Free treatment has been provided in Saskatchewan for many

years. However, the grant could be beneficially used to round out our tuberculosis control program if its purpose was widened to include preventive services and rehabilitation.

(3) *Mental Health Grant.* A grant of \$310,000 is offered to assist the province in the prevention of mental illness and in providing free treatment for mental defectives and persons suffering from mental illness. The grant may not exceed 20 per cent of provincial and municipal expenditures, exclusive of capital costs, on mental health services.

Mental health is one of the most neglected features of the health program in Canada. All provinces will find it necessary to undertake large building programs and greatly expand their operating costs. We estimate that an adequate program for mental health for this province will involve a capital expenditure of \$7.6 millions and operating costs of \$3 millions. The construction necessary in this province includes the following:

	Estimated Cost
Training school for mental defectives	\$2,000,000
New mental hospital	3,600,000
Alterations and additions to existing mental hospitals	1,480,000
Institution for senile psychotics	480,000
Psychopathic ward	100,000
	<hr/>
	\$7,660,000

Expanded services such as mental hygiene clinics, a social service department, foster home care, etc., will greatly increase operating costs. Provision will also have to be made for training adequate personnel for a program of this scope.

The suggested grant will do little more than enable the province to maintain its present standard of services. It amounts to only 10 per cent of the estimated operating costs for an adequate program. We strongly urge that the grant should be greatly increased and that adequate provision should be made for assisting the provinces with the essential capital expenditures.

(4) *Venereal Disease Grant.* The grant for this service is to match provincial expenditures up to a maximum based 50 per cent on population and 50 per cent on the number of new cases of venereal disease reported in the previous calendar year. The Dominion estimates that Saskatchewan's grant will be \$29,500. With the increased reporting of cases in evidence at present, we estimate that our grant will probably be three or four thousand dollars more.

We estimate that an adequate program of venereal disease control, including free treatment, will cost \$93,500. However, we believe that treatment of venereal disease should be included in the general medical services provided under the health insurance plan. The proposed grant appears fairly adequate for a control program apart from free treatment.

(5) *Crippled Children Grant.* A grant of \$38,800 is offered to assist the province in establishing a program for the prevention and treatment of crippling conditions in children. It is suggested that the grant should be used for surveying the problem, for the provision of clinics, free transportation and free appliances, for the promotion of an educational campaign and vocational training, and for job placement and other services.

No survey has been carried out in this province to learn the extent of the problem and no program instituted. The proposed grant will probably be adequate for the beginning of a program.

(6) *Professional Training Grant.* The sum of \$250,000 is offered for the whole of Canada to train personnel in the field of public health. Further details should be given as to its distribution and the conditions to be laid down.

We would like to point out that while public health personnel is greatly needed, large amounts of money must also be spent on undergraduate and post-graduate training of physicians, dentists, nurses and ancillary personnel. In Saskatchewan this will mean the provision of training facilities locally and sending people away for training. No health scheme will be successful unless provision is made for such training. If the suggested amount is to be distributed on a per capita basis, Saskatchewan's share will be about \$19,000—a very inadequate sum.

It seems strange that the grant of \$250,000 proposed for professional training is only half of the proposed grant for a crippled children's program. A professional training program will affect every phase of the health program and is of paramount importance. It may be that the federal Government is taking into consideration the assistance being made available to veterans for educational purposes, and considers this assistance makes ample provision for professional training needs apart from public health purposes. More information should be given on this point. In our opinion, it is very doubtful that the veteran program will meet the need fully.

(7) *Public Health Research Grant.* The terms of the grant, amounting to \$100,000 for the whole of Canada, appear acceptable to Saskatchewan.

(8) *Grant for Civilian Blind.* A grant of \$64,000 is offered to this province to pay 50 per cent of both the cost of pensions for blind persons over 21 and the cost of medical treatment for the prevention and cure of blindness. It is suggested in the Conference Reference Book on Health, Welfare and Labour (p. 41) that

It may be desirable to place the whole problem of blindness, both prevention and treatment, in the hands of the departments of public health. Not with the expectation that they would maintain treatment centres but that they should undertake to provide direction . . . in order that those who could be helped by treatment should not go without because of technicalities and eventually become a total charge on the state.

and further:

It is considered sound that pensions should be linked with treatment and training and given only when the other two fail.

While we agree that treatment and training should be given in all possible cases, we believe that the Department of Social Welfare is best equipped to administer the program for blind persons in this province. The Department is already making plans to extend pensions to blind persons from the age of 21 and to include them in its rehabilitation program. A co-operative arrangement could be worked out between the Department of Social Welfare and the Department of Public Health whereby the latter would provide medical treatment for blindness. Further discussion of this grant will be found in the Social Welfare section of this brief.

3. FINANCIAL ASSISTANCE IN THE CONSTRUCTION OF HOSPITALS

Before complete health services can be established in this province, a considerable expansion in hospital facilities will be needed. According to our interpretation of the Dominion Proposals, it appears that any assistance given to the provinces to meet the needs of hospital construction is to be in the form of loans which will be charged against the health grants payable by the Dominion to the provinces. This would necessitate the use of some portion of the grants as a capital fund from which to make such advances. Since the proposed grants are not sufficiently large to cover more than a portion of the operating expenses

of the various services, the provincial governments wishing to undertake hospital construction will either have to forego part of the federal grant for operating expenses and bear the additional cost themselves, or else raise the funds for capital construction by provincial borrowing. The provinces would then be in the position of having to bear the burden of loans ostensibly sponsored by the federal Government.

In seeking a solution to this anomaly, we offer the following suggestions:

- (i) that where the development of a scheme under the federal proposals is likely to necessitate extensive capital costs, these costs should be taken into consideration in determining the per capita or total costs of rendering service, and proportionate financial aid should be forthcoming;
- (ii) that the federal Government follow the American plan in the Wagner-Murray-Dingell bill and make available to the provinces loans and/or grants for hospital construction;
- (iii) that the federal Government consider hospital construction in conjunction with other public works projects and assume responsibility for loans for hospital construction projects approved by a provincial government. However, as stated in an earlier part of this brief, we do not consider that the provision of hospital facilities is a form of public investment which lends itself to "timing." It would not be advisable to delay implementation of the health insurance plans until employment conditions justify public investment.

4. ADDITIONAL PROPOSALS

The Government of Saskatchewan would like to suggest that the national health program should be extended to include certain additional services which are outlined below.

(1) *Physical Fitness.* The Physical Fitness Program receives only passing reference in the Proposals. We recommend that increased grants should be made for this purpose so that our plans for extending the program can be carried out. The grant available to this province under the Physical Fitness Act is entirely inadequate for training leaders and organizing this essential work.

(2) *Cancer Grant.* Cancer stands second among the causes of death, and first in fear and dread. Experts in this country are agreed that much more could be accomplished in fighting this disease if all our present knowledge, facilities and skills were brought to bear in a well-organized, fully co-ordinated attack on the problem. To do so, we must undertake an unremitting educational campaign, concentration of modern equipment and medical skills, and research. The provision of free diagnosis and treatment is an essential measure in ensuring the full utilization of facilities for early diagnosis and treatment.

The Province of Saskatchewan now provides completely free treatment for cancer patients, including surgery, radium and hospitalization costs. In our program to date, we have invested \$171,271.15 in capital equipment. Further expenditures should be made in the near future on the following:

A cancer unit in conjunction with the Medical School.

With the necessary equipment, it is estimated that this will cost approximately	\$500,000
Modernization of X-ray equipment in Regina	20,000
Purchase of therapeutic X-ray equipment for Saskatoon	30,000
Modernization of radium supply	15,000
Additional office and clinical equipment	60,000
Total....	<u>\$625,000</u>

An efficient and complete service to cancer patients would necessitate an annual expenditure estimated as follows:

Operating clinics (diagnostic services and radio-therapy) ...	\$217,300
Surgery (as by present arrangements)	85,000
Hospitalization (as by present arrangements)	160,000
Total....	<hr/> \$462,300

We therefore recommend:

- (i) that, in view of the serious nature and recognized urgency of the cancer problem, and in view of the organized efforts to combat it that have already been initiated in some provinces, provision should be made for a special federal grant in aid of a cancer program;
- (ii) that, if and when a complete scheme of health insurance is developed in each province, consideration should be given by the provinces concerned as to whether the management of cancer should remain a separate and specialized field or be part of the overall scheme;
- (iii) that a province should be required to present a well-organized program of cancer management and provide free diagnosis and treatment in order to be eligible for the grant.
- (iv) that the grant should be distributed in the same way as the proposed tuberculosis grant: 50 per cent on the basis of population figures and 50 per cent on the basis of reported cancer deaths;
- (v) that an agreed portion of the grant should be set aside for the formation and maintenance of a Canadian Cancer Research Institute;
- (vi) that the total available grant for this purpose should be \$5,000,000.

This is a service which we consider essential. If a special cancer grant is not made, then our program should be eligible for approval as a health insurance benefit towards which the federal Government would contribute as soon as the health insurance scheme is under way.

(3) *Arthritis*. We submit that a special grant should also be made available for an arthritis program, so that sufferers from this disabling and common disease may receive the benefits of a research and treatment program.

In our opinion, this is a problem comparable in importance to the problems of the blind, crippled children, etc., and a grant should therefore be made towards it.

(4) *Special Groups*. The Department of Social Welfare estimates that a desirable program should place the following in the position of receiving assistance from the provincial or federal Government:

34,000 old age pensioners, 70 and over (no means test)
15,000 old age pensioners, 65-69
3,000 special cases, 60 and over
11,000 on mothers' allowance
800 blind
3,000 spouses and dependents
4,000 social aid cases

70,800

Under our present arrangements, these groups would qualify for complete free health services, although the rest of the population might be receiving limited services only. We submit that the federal Government should contribute towards the cost of health services supplied to any group. On the present basis, the costs of complete care for these groups might be expected to be about \$1,500,000.

5. SUMMARY OF RECOMMENDATIONS

(a) *Health Insurance*

- (1) The federal Government should contribute to the cost of services now being provided by individual provinces so that the Federal Proposals do not have the effect of limiting the scope of existing programs;
- (2) The federal Government should bear at least part of the risk that the estimated costs may be inaccurate;
- (3) The federal contribution should be based on the total costs of all approved benefits offered;
- (4) The federal Government should be prepared to contribute toward other services introduced before the basic services of the first stage, provided the first stage is introduced within the first two years;
- (5) Visiting nursing services should not be considered part of the first stage;
- (6) Since the federal Government must approve all provincial schemes, consideration should be given to removing the concept of a required first stage;
- (7) Clarification of the procedure for calculating actual costs is necessary;
- (8) A Province should be able to limit a scheme to certain groups of the population at first;
- (9) If a federal social security tax is instituted, its proceeds should be shared with the provinces to avoid double taxation;
- (10) Adequate provision should be made for a stable fund in poor times;
- (11) Provision should be made for additional approved benefits, besides those listed in the Proposals.

(b) *Health Grants*

- (1) Health grants should be made available immediately without awaiting a health insurance plan;
- (2) The general public health grant should be increased;
- (3) The purposes of the tuberculosis grant should be broadened to include preventive and rehabilitation services;
- (4) The mental health grant, as proposed, is inadequate for the necessary expansion and improvement of services and should be increased;
- (5) The professional training grant should be increased in amount and made available for training personnel for other than public health purposes;
- (6) Additional grants should be made for following purposes:
 - (i) an expanded physical fitness program;
 - (ii) a cancer program;
 - (iii) an arthritis program.

(c) *Hospital Construction*

The proposal for hospital construction requires clarification. It is essential that some tangible assistance in the form of grants should be made available for this purpose, similar to that proposed in the United States.

(d) *Additional Proposals*

Provision should be made, apart from a health program, for compensation for loss of income through illness.

PART IV

SOCIAL WELFARE

The expanding concept of social services has brought the problem of jurisdiction in this field into sharp focus. Governments are to-day expected to provide security from the cradle to the grave, equality of educational and employment opportunities and enlightened treatment for the delinquent sections of the population. The Government of Saskatchewan believes that the Dominion Government, with its greater financial resources, should be responsible for the provision of those social services, such as family allowances, unemployment insurance and old age pensions, which involve the payment of fixed grants to large groups of individuals with a minimum of supervision. But it considers that the provinces are best suited to administer all social services where supervision by trained social and educational workers is required. If the provinces are to discharge this responsibility, they must be guaranteed adequate revenues to provide a minimum standard of services. It should never be said that a Canadian is penalized or discriminated against in welfare services because of the geographical area in which he resides.

In the Dominion Proposals there is no quarrel with the province's concept of the proper division of jurisdiction in the field of social welfare. But neither is there any guarantee, as there was in the Sirois Recommendations, that all provinces will be able to maintain a minimum Canadian standard of services. The assumption that the per capita grants offered will "guarantee all provincial governments sufficient revenue to discharge their basic constitutional responsibilities" (Proposals, p. 50) will be falsified when drought or low prices strike this province. We submit that something in the way of an adjustment grant and a broader federal share in the costs of social and educational services is needed. In particular, we wish to suggest modifications of the Dominion Proposals relating to old age and blind pensions and unemployment relief and to urge additional aid to education.

1. OLD AGE PENSIONS

The Dominion is proposing that the present system of old age pensions for needy persons of 70 and over should be replaced by a two-fold scheme consisting of the following:

- (i) A national scheme of old age pensions for all persons of 70 and over, regardless of means;
- (ii) A system of old age assistance for persons in the 65-69 age group who qualify under a means test.

The first part is to be financed and administered entirely by the Dominion; the second is to be financed by equal contributions from the federal and provincial governments and administered by the provinces. For both schemes the maximum pension is to be \$30 a month. It is estimated that by 1948 national old age pensions will cost the Dominion Government \$200 millions, and old age assistance, a minimum of \$17 millions. Saskatchewan's share of old age assistance is estimated at \$1.2 millions plus administrative costs.

National Old Age Pensions

The Government of Saskatchewan strongly approves of the Dominion's proposal to supersede the present restricted system of pensions by a scheme under which all persons of 70 and over will be entitled to a pension of \$30 a month as a right and without application of a means test. This policy together

with family allowances represents the first stage of a comprehensive scheme of social security for the people of Canada. It is hoped, however, that in time conditions will permit the payment of a somewhat more generous pension. Under the scheme now in force, a pensioner is allowed to have a total monthly income varying from \$35 to \$40, depending on the province in which he resides. This is an admission that an old person needs from \$35 to \$40 a month for subsistence. If the Government is to give economic security to these people it should at least provide them with a subsistence income.

Old Age Assistance

In offering a scheme of old age assistance for persons in the 65-69 age group, the Dominion Government has recognized that public opinion now favours a lower age of eligibility for pensions than 70. Old age pension legislation in effect in Great Britain, the United States, Australia and New Zealand applies in most cases to all persons of 65 and over. Most private pension schemes operated by employers and fraternal associations commence payments at 65. The Saskatchewan Government heartily endorses the proposal to reduce the age of eligibility to 65. It believes that persons over 65 should not be obliged to work for a living and are entitled to a period of rest and relaxation in the latter part of life.

The Government is, however, surprised and disappointed that the Dominion Government, after proposing to wipe out the iniquitous means test for the 70-and-over age group, should suggest its reinstatement for the 65-69 group. In its Proposals the Dominion admitted that "the means test is generally recognized as undesirable after a certain age" (p. 37). We submit that a means test is undesirable for any age group which is considered eligible for old age pensions. If the Government and public opinion think that men and women have a right to retire at 65, as they apparently do, then national old age pensions should be provided for all above that age. The Dominion Government puts forth some very cogent reasons on page 38 of its Proposals for elimination of the means test for persons of 70 and over. It points out that payment of pensions as a right offers the best kind of economic security for old people. It relieves them of the necessity of working or depending on charity or relatives for support. It also facilitates their withdrawal from the employment market and thus increases job opportunities for those better able to bear the burden and heat of the day. In our opinion, these arguments are just as pertinent to the 65-69 age group as to those of 70 and over.

It is well known that only about 40 per cent of all persons over 70 applied for old age pensions under the scheme now in effect. Many more preferred to burden relatives or struggle to compete in the employment field rather than submit to the humiliation of a means test. To them a means-test pension scheme was just another form of relief. The same attitude will be felt towards the proposed old age assistance for the 65-69 age group.

From the economic viewpoint, there is another argument in favour of national old age pensions for all persons past 65. The maintenance of an "adequate level of expenditures on consumption" (Proposals, p. 6) is vital to the Government's program for promoting a high level of peacetime employment in Canada. Unemployment insurance, family allowances, veterans' grants and old age pensions are all means to this end. The purchasing power of those in the 65-69 age group would be considerably increased if pensions were paid without a means test.

An Increasing Provincial Liability

To the provinces, retention of the means test, as has already been pointed out, means that they will continue to receive the public criticism which inevitably arises from its application. They will also have to keep large numbers of welfare

workers occupied with the investigations and supervisory work necessitated by a means test. They will be subject to continuous pressure to provide a more liberal pension out of their own funds. Few, however, will be able to do this with the revenues to be left at their disposal under the Dominion Proposals. In fact, some provinces will find difficulty in financing their share of the proposed old age assistance as the costs increase with the aging of the population. No provision has been made in the Dominion Proposals for assuring to the provinces the additional revenue needed to meet this increasing liability.

The Government of Saskatchewan submits, therefore, that the means test is not only degrading to the individual but is poor social and economic policy. It fears, moreover, that endless confusion will arise in the public mind from the attempt to meet the problem of old age assistance by two distinct schemes administered by different governments. It will be difficult to explain why one person must submit to a means test before obtaining a pension, while another, possibly in the same family, receives his pension as a right. The Government strongly recommends that the Dominion Government follow the swing away from the means test manifest in the other English-speaking countries and adopt a national scheme of old age pensions for all persons over 65.

In our opinion, the Dominion Government should assume complete responsibility for financing and administering such a scheme. In the Proposals, it recognized that:

General speaking, the need for pensions is, as might be expected, greatest in those provinces which are least able to finance such payments out of local revenues. (p. 37)

It seems strange, in view of this statement, that the Dominion should propose a scheme which will do little to equalize the burden of old age assistance among the provinces, and which, according to our calculations, will cost this province as much as the old system and in the near future will cost considerably more. We maintain that the Dominion Government is the only government with adequate resources to finance a full-fledged scheme of national old age pensions. If the taxation proposals are accepted, it will be the only government with power to drain back, through income tax or succession duties, old age pensions paid to persons in the upper income brackets. In the family allowances administration it already has the machinery for checking applications and making regular monthly disbursements. The welfare workers connected with family allowances could quite probably also handle the welfare problems of old age pensioners.

Advantages of Dominion Administration

Under Dominion administration, pensioners would no longer have their basic Canadian right to live anywhere in the country curtailed. At present, they have to live in the province in which they apply for pension for a period of five years immediately preceding application. The Dominion has proposed that this qualification should be removed and that each province should assume responsibility for all pensioners within its borders. While such an arrangement would solve the serious problem of inter-provincial accounting which arises out of the present scheme, it would work very unfairly against provinces with an attractive climate such as British Columbia. They would be tempted to discourage the immigration of pensioners by any means possible under the constitution. A much better solution to the problem of inter-provincial accounting and provincial residence qualifications would be complete Dominion administration and financing.

Other advantages in Dominion administration would be uniform interpretation and application of the regulations across the country. Furthermore, it would no longer be necessary to obtain the unanimous consent of nine provinces to every amendment in the regulations.

Contributory or Non-Contributory Pensions

It has been suggested on p. 42 of the Dominion Proposals that provision should be made in the agreements to be concluded with the provinces for financing old age pensions to some degree by individual contributions. If the Dominion accepts this Province's recommendation that it assume the full cost of old age pensions for all persons over 65, it will not require the consent of the provinces to the method it adopts for financing the scheme. If, however, it expects the provinces to bear a share of the costs, their wishes will have to be considered. Until more concrete proposals for a contributory scheme are put forth, this province is hardly in a position to indicate whether or not it will agree to the suggestion.

We would like to reiterate, however, that the Government of Saskatchewan would not favour any proposal whereby the Dominion Government financed only its own share of old age pension or other social security costs through a social security tax in the form of contributions or other payments. Such an arrangement would prevent any province from using a similar direct tax to finance its share, since the public would not be willing to pay two taxes for the same service. Furthermore, if the Dominion covered its total costs through a social security tax, the Province would receive no benefit whatever from Dominion participation as it could have levied the same tax on its own people. If a contributory scheme is to be considered at all for any aspect of social security which the Dominion and the provinces finance jointly, we maintain, as stated before, that the proceeds of the contributions must be shared with the provinces. We believe, however, that greater equalization of resources would result if the Dominion financed its share of social security schemes from the general taxation of the country.

A contributory old age pension scheme would, moreover, involve the same administrative problems as were mentioned in the discussion of a contributory health insurance scheme in an earlier part of this brief. There would be the necessity of keeping extensive records for millions of people over a long period of time. Difficulties would be experienced in collecting contributions from the large numbers of self-employed persons in the population. The problem of providing for persons whose contributions, for one reason or another, were insufficient to entitle them to a pension would have to be solved.

From the psychological angle, it is difficult to see why anyone should consider that he is anymore entitled to a pension because he has paid contributions than because he has paid taxes all his life. In actual fact, contributions are merely a rather regressive form of taxation. They are a form of payment which, if collected on a large scale, might have a deflationary effect and could have serious consequences in a period of declining investment.

Other Problems

The Dominion Proposals appear to overlook the problem of providing for the dependants of pensioners who, because of age or other reasons, do not themselves qualify for a pension. It is quite obvious that a man cannot keep a wife on \$30 a month. The New Zealand non-contributory scheme covers the dependent wives and children of pensioners who qualify under a means test. The British White Paper of 1944, based largely on the Beveridge Report, proposed an additional allowance for the wife of a pensioner under the new contributory scheme which is to be without a means test. The Wagner-Murray-Dingell bill now before the United States Congress also makes provision for the dependants of pensioners who qualify under a contributory scheme.

The Government of Saskatchewan believes that if the federal Government is proposing to give economic security to all old persons, it must make provision for their dependants, including their widows. Otherwise many pensioners will have to continue working or depending on relatives or submit to the humiliation of applying for municipal relief.

The Government also requests that greater flexibility should be introduced into the regulations and that pension authorities should be given discretionary power to prevent disqualification of applicants for pension on purely technical grounds. In our opinion the Dominion Government should assume responsibility for old persons who fail to qualify for pension due to lack of residence.

2. PENSIONS FOR THE BLIND

At present blind persons of 40 and over are entitled to the same pension as old age pensioners provided they can qualify under a means test. The Dominion bears 75 per cent of the cost and the provinces administer the scheme and pay the remaining 25 per cent.

It is suggested on page 35 of the Dominion Proposals that the pension age should be reduced to 21 and that free medical treatment for the prevention or removal of blindness should be provided. The cost of the new scheme is to be borne equally by the Dominion and Provincial Governments. The proposal does not indicate whether the means test is to be continued or what the rate of pension is to be. Presumably it will be not lower than the old age pension.

The Government of Saskatchewan endorses the proposal to reduce the pension age to 21 and to provide medical treatment for blindness. We would like to suggest that the Dominion Government should also consider granting financial aid towards the education of blind children. At present this province spends between \$8,000 and \$9,000 a year to send about 21 blind children to schools in other provinces. In its reference book on Health, Welfare and Labour (p. 41) the Dominion Government states that:

It is considered sound that pensions (for blind persons) should be linked with treatment and training and given only when the other two fail.

In our opinion, training should begin at school age.

Higher Pension Urged

There are arguments in favour of a higher pension for blind persons than for old age pensioners. The needs of an old person are generally confined to food, shelter and clothing. A blind person, on the other hand, particularly those under 40, may want to take an educational course, get married, buy furniture and raise a family. We submit that he should not be denied these basic human rights, and strongly urge a minimum pension of \$50 a month with additional provision for dependants. We feel, however, that there is some justification for retention of a means test in the case of blind pensioners. Many are in an age group which is normally expected to be self-supporting but they have widely varying capacities for earning a living. In our opinion, it would be fair to reduce a basic pension of \$50 a month by 50 cents for every \$1 of outside income. A blind person would, therefore, have to be earning \$100 a month before he would cease to receive at least a partial pension.

In the table setting forth health grants on page 35 of the Dominion Proposals, an estimate of \$64,000 has been included for the Dominion's share of the cost of pensions and medical treatment for blind persons in Saskatchewan. This appears rather low. The Saskatchewan Department of Public Health estimates that proper medical treatment for blindness will cost about \$30,000 a year in this province. The Dominion is to pay 50 per cent of this amount which only leaves about \$49,000 for pensions. This would provide 50 per cent of a \$30 a month pension for only 272 persons.

It would pay half of a \$50 a month pension for 163 persons. In 1945 there were a total of 335 blind persons in Saskatchewan in receipt of pensions, all of whom were over 40 and had qualified under a means test. There would probably be a considerable number between 21 and 40 who would qualify for at least a partial pension although the employability of this group is fairly high. We suggest that after blind persons reach the age of 65 they should be covered by the national old age pension scheme with the cost borne entirely by the Dominion. The amount which this step would save the province might offset the increased costs resulting from reduction of the pension age.

3. UNEMPLOYMENT INSURANCE AND UNEMPLOYMENT ASSISTANCE

The Dominion Government has offered in its Proposals (p. 42 ff) to assume responsibility for unemployed employables, leaving unemployables and self-employed in need of relief to the provinces. The Government of Saskatchewan agrees with the general principle that the Dominion should provide either a job or a subsistence income in lieu of a job for all employable persons and that the province should be responsible for unemployables. But it cannot accept the suggestion that relief for the self-employed should be left to the provinces.

The Self-Employed

It may be true that in Ontario or Quebec the self-employed are a "residual problem, which is not large financially" (Proposals, p. 44), but in this province drought or disastrously low prices may force one-half the farming population on relief. As stated earlier, the Dominion Proposals promise basic economic security for industrial and other employees through unemployment insurance and assistance and timed construction programs, but they are silent in regard to assistance for farmers and other primary producers. This is a very serious matter for the Province of Saskatchewan which, unlike the industrialized provinces, will obtain very little benefit from the Dominion offer to look after employables. Its seriousness is indicated by the fact that in 1937 fully 50 per cent of provincial expenditures went for relief, mostly to farmers. The situation was almost as bad in a number of other years.

We feel therefore, that in fairness the Dominion Government must make provision for the economic security of the self-employed at least comparable to that proposed for ordinary employables. This, as we have already suggested, should take the form of (a) a guaranteed floor under prices of some equivalent arrangement, (b) a crop insurance scheme, or, in the alternative, an extension of the present Prairie Farm Assistance Act benefits which do not now adequately protect the farmer against loss of income. We are convinced that most other provinces will support us in the contention that the federal Government has as much responsibility for guaranteeing security to primary producers and other self-employed persons as to industrial workers.

Definition of Unemployables

As a second criticism of the Dominion Proposals in regard to unemployment relief, the Government of Saskatchewan strongly objects to the Dominion's definition of unemployables. On page 44 of the Proposals the Dominion qualifies its offer to assume responsibility for unemployed employables by the following statement:

A person who ceases to be employable would not be eligible for unemployment assistance. In the absence of more specific evidence of unemployability, a person who has remained on assistance for a period of

two years, without being able to obtain or keep employment other than of a casual nature, would be declared ineligible and transferred to the responsibility of the provincial government and municipality.

Such an artificial definition of unemployability seems to us an extraordinary means to limit federal liability for unemployment relief. It is quite possible that a man may be unemployed for more than two years simply because there is no work available, as happened to many during the last depression. It is to be hoped that the Dominion's plans for maintaining a high level of employment will prevent the recurrence of such a situation. We maintain, however, along with Alberta, that an individual's employability should be determined solely on the basis of his physical and mental fitness for work. If any dispute arises over a person's employability, it should be settled, as Alberta suggests, by a Board of Arbitration.

Unemployment Assistance Not Adequate

The scale of benefits provided under the Unemployment Insurance Act ranges from \$4.08 to \$14.40 a week depending on the rate of contribution paid by the worker and whether or not he has dependants. Unemployment assistance for insured persons who have exhausted their insurance benefits and for uninsured persons with a record of previous employment is to be 85 per cent of the appropriate insurance benefit. It will therefore range from \$3.47 to \$12.24 a week. In our opinion, many persons, even with the aid of family allowances, will find at least the lower rates inadequate for subsistence. According to the Dominion Proposals (p. 44), the province and municipalities are expected to come to the rescue in such cases. We submit that if the federal Government is offering to assume responsibility for unemployed employables, it should be prepared to make adequate provision for the basic necessities of this group.

We would like to point out, further, that neither insurance benefits nor unemployment assistance is paid when an employee is off work because of sickness. Both the Beveridge Report in Great Britain and the Wagner-Murray-Dingell Bill before the United States Congress propose combined sickness and unemployment insurance schemes. It appears that the provinces will be responsible for supporting employables who suffer temporary loss of employment through illness.

With regard to unemployables, we would like some consideration to be given to the question of uniform residence regulations so that it would be clearly established which province is responsible for each case. We suggest that the Dominion should assume responsibility for unemployables with no legal residence in any province of Canada.

4. EDUCATIONAL OPPORTUNITIES

The provision of equal educational opportunities for all Canadians is now regarded as a matter of national concern. It is realized that a more highly educated community means more jobs of both a professional and industrial nature. The fullest development of the nation's human resources is integral to any post-war plans for high employment.

The Sirois Commission recognized these facts. One of its fundamental recommendations was that each province should be enabled to bring its educational and other welfare standards up to the Canadian average. It seems strange, therefore, that the more recent Dominion Proposals should remain completely silent on so vital a subject. Research organizations such as the Canada and Newfoundland Education Association have demonstrated with facts and figures that the provinces vary widely in their capacity to support educational services. They place Saskatchewan near the bottom of the list in this respect. Not only

is its taxable capacity lower than average, but its educational costs are much higher because of its predominantly rural and scattered population. If the young Canadians now growing up in Saskatchewan are to make a contribution to the productive capacity of Canada, they must have a proper start in life. This will be possible only if the federal Government recognizes its responsibility to equalize educational opportunities across the country.

Educational Needs Outlined

The Dominion Government may consider that it has discharged its obligations in regard to education by the program of grants for vocational training contained in the Dominion Proposals (p. 46). To a province like Saskatchewan which is hungry for the bread and meat of general education, this is an offer of frosted cake. Saskatchewan needs better-trained and better-paid teachers, modern school buildings and equipment, school libraries, community high schools for rural youth, a school health service, and a broader educational program that will include agriculture, commercial subjects, home economics, industrial arts, music and dramatics. All these items have priority over any expansion in vocational education which is a relatively small problem in relation to the total educational needs of the province.

The Saskatchewan Department of Education believes that educational expenditures in this province must be doubled if really adequate educational services are to be provided. It is prepared to submit a detailed program for this expenditure—a program arrived at after careful study of the Report of the Saskatchewan Reconstruction Council and after extensive consultation with teachers' and trustees' associations. Since the municipalities have apparently reached the limit of their resources in land taxation for education and the province is being asked to yield up its more flexible forms of direct taxation to the Dominion, the only solution appears to be a broad plan of federal assistance for education.

The Government of Saskatchewan is prepared to concede that federal assistance to education may take the form of conditional grants contingent on the maintenance of minimum educational standards in the province. But it is not satisfied that grants on a dollar-for-dollar basis will meet the need. The provinces most in need of improved educational services are the provinces which have the greatest difficulty in matching the Dominion's contribution. Conditional grants must be apportioned according to some index of a province's actual needs.

5. OCCUPATIONAL REHABILITATION OF THE PHYSICALLY HANDICAPPED

A joint Dominion-Provincial plan for the occupational rehabilitation of the physically handicapped is put forward on pages 45-46 of the Dominion Proposals. The Government of Saskatchewan endorses the basic aims of this plan and is prepared to co-operate with the Dominion in working out the details of such a scheme. There are a considerable number of persons in the province who are now public charges but who could be trained and educated to such an extent that they would become an asset rather than a liability to the province. One might include in this class the Metis population which suffers not from a physical handicap but from an educational and cultural one. We feel that their problem is a special one to which some consideration should be given.

We would like to suggest that the cost of maintenance of a handicapped person and his dependants during training should be included in the costs of rehabilitation and borne jointly by the two Governments.

PART V

AGRICULTURE

Agriculture has occupied and must continue to occupy a significant place in the economic life of Canada. Its fundamental importance to the Dominion is too well known to require statistical support but some figures may be cited to indicate its relative position. In 1943 (the last year for which complete figures are available) the net value of Canadian agricultural production was estimated at \$1,246 millions out of a grand total for all industries of \$6,325 millions, or almost exactly 20 per cent. Of the total net value of agricultural production the prairie provinces accounted for \$567 millions, while Saskatchewan itself recorded a net agricultural production of \$250 millions or 20 per cent of the Canadian agricultural total. The distribution of the gainfully occupied by occupational groups according to the census of 1941 shows that of the 4.2 millions gainfully occupied in Canada, 1.1 millions or approximately 26 per cent were engaged in agriculture, the nearest competitors being the "service" industries with 725,456 and the manufacturing industries with 709,181 engaged in them. While it is recognized that this distribution underwent some change as a result of abnormal war demands, the importance of agriculture to the welfare of the people of the Dominion remained. In the pre-dominantly agricultural province of Saskatchewan the dependence of the people on agriculture is marked. In 1941, out of a total gainfully employed population of 315,846 (exclusive of armed forces) 187,416 or 59.3 per cent were occupied in agriculture and the \$250 millions net value of agricultural production represented 75 per cent of the total production of \$333 millions in 1943.

Vital Position of Agriculture

Yet the figures quoted above do not measure fully the significance of agriculture in the economy of the Dominion. A very large proportion of other industry is based directly upon supplying or servicing the needs of Canadian agriculture and many thousands of persons occupied in these other sections of industry are directly or indirectly dependent for their livelihood on a stable and prosperous agricultural economy. This dependence of other industries on agriculture lends added weight to the demand that special attention be given to the stabilization of agriculture at levels which will provide reasonable returns to those engaged therein. In any consideration of Dominion-Provincial relations and of reconstruction plans for the future, the position of agriculture is vital. Insofar as Saskatchewan in particular is concerned, improvement and advancement in other fields will be almost completely nullified unless definite steps are taken to promote agricultural stability and security. The Saskatchewan Government wishes, therefore, to submit definite proposals, aimed at achieving for agriculturists a substantial measure of that stability and security to which their numerical importance and contribution to the economy of Canada entitles them.

Fluctuations in Saskatchewan Agriculture

Saskatchewan agriculture has been subject to violent fluctuations in both the volume and the value of its products as a result of factors beyond the control of our people. During the 1930's our farmers suffered from a double disaster. Not only did they feel the full impact of the general economic depression through unprecedentedly low prices for their products, but their

position was further aggravated by widespread and repeated crop failures. Not only were both the production and the returns of the main cash crop, wheat, drastically reduced, but the failure of feed grain crops forced extensive liquidation of livestock. The situation achieved the proportions of a national calamity in 1937 with a virtually complete crop failure over the greater portion of the province. Only 36 million bushels of wheat were produced in that year, or an average yield of 2.6 bushels per acre.

It is, nevertheless, important to note that in both the years preceding and the years succeeding the 1930's satisfactory levels of production were experienced. The gratifying volume of Saskatchewan agricultural production during the war years may be cited as evidence of this fact.

Prairie agriculture will, of course, always be subject to natural climatic hazards and to world-wide economic influences over which we have little or no control. However, not all the hazards of nature are beyond the control of man. The development of varieties of wheat capable of withstanding the ravages of rust is an example of man's ability to overcome some of these destructive forces.

1. PROPOSED STABILIZATION MEASURES

The Saskatchewan Government's proposals for agriculture are aimed at the stabilization of the industry. The instruments used must be both legislative and physical; legislative—to provide a bulwark against falling prices as well as falling income resulting from the hazards of nature; physical—to promote stability in production and to broaden the base of the agricultural economy.

Under the heading of legislation, certain Federal Acts and their possible extension may be considered. As it stands at present, much of this otherwise admirable legislation offers little in the way of protection or security to the predominantly agricultural population of Saskatchewan. It has been pointed out that three-fifths of the gainfully employed in Saskatchewan are directly occupied in agriculture. Yet by virtue of their being classed as either agricultural workers or "self-employed", these workers are excluded from the benefits of the Unemployment Insurance Act. The Government of Saskatchewan feels that it must insist on adequate provisions for the security of this large section of the population. It may be difficult, administratively, to apply the provisions of the Unemployment Insurance Act to those who derive their living from agriculture. It is, however, contended that serious study should be given to the possibility of bringing agricultural workers under the Act without delay. For the so-called "self-employed" in agriculture, some comparable form of security must be provided. This, it has been recommended, should take the form of (a) a guaranteed floor under prices, or some equivalent arrangement and (b) a national crop-insurance scheme or, in the alternative, an extension of Prairie Farm Assistance Act benefits.

It may be proper to interject here a comment on the exclusion from Dominion responsibility of "self-employed" persons in activities other than agriculture. Saskatchewan is not an important industrial province, but there is a very considerable number of persons operating small businesses who come under the classification of "self-employed." Serious consideration should be given to the extension of some form of benefit to assure this group in our population of a measure of security comparable to that given or proposed for other workers.

2. PRICE STABILITY

Marked stability of agricultural prices has made it impossible for Saskatchewan farmers to develop a well-balanced economy. In periods of depression the prices of coarse grains and of livestock products tend to fall even faster and farther than the price of wheat. Consequently any approach to the problem of guaranteeing some security of farm income necessitates adoption by the federal

Government of a definite price policy for agricultural commodities consumed largely in Canada combined with the institution of price floors at levels which will provide the basis for a reasonable Canadian standard of living for the producer. The Saskatchewan Government accordingly urges that the provisions of the federal Government's Agricultural Prices Support legislation be instituted immediately price conditions require it, and that this legislation, with appropriate extensions, be regarded as an integral and permanent part of the farm security program. It is submitted, however, that the provisions of this Act will not be sufficient.

Extend Wheat Board Activities

The Saskatchewan Government is deeply impressed with the very salutary effect which the operations of the Wheat Board have had in stabilizing the price of wheat in the past. It is extremely anxious not only that the activities of the Wheat Board should be continued, but that they should be extended to other grains and a similar principle applied to the marketing of livestock and livestock products.

Consequently, the Government of Saskatchewan recommends that the federal Government should be given sufficient jurisdiction, either by constitutional amendment or delegation from the provinces over the marketing of cereal grains, livestock and livestock products to achieve the following purposes: (a) to establish a price floor at a level which will provide security for producers; (b) to secure adequate inspection and grading to protect both producers and consumers; (c) to control production and institute other emergency measures in economic crises. The Saskatchewan Government also feels that the federal Government must have power to enter into and carry out international agreements for the orderly marketing of the above-named products.

3. CROP INSURANCE

Wide variations in crop yields are a recognized factor contributing to the violent fluctuations in Saskatchewan farm income. Nearly every year some portion of the province suffers serious loss through crop failure. Only a comprehensive system of crop insurance will deal adequately with this situation.

Experience in a number of wheat-producing countries indicates that it is almost impossible to institute a system of crop insurance dependent entirely on payments from the farmer. Certain risks, such as hail, can be covered with reasonable premiums, but losses resulting from the vagaries of weather, insect pests and plant diseases, have resulted in abandonment of insurance schemes in almost all areas where they have been tried.

Problems of Crop Insurance

In Saskatchewan a study of production records reveals definite zones where soil and climatic factors result in wide differences in crop yields. The northern and north-eastern parts of the province are less subject to crop failure than the prairie plains and a greater diversity of production is possible. On the basis of each farm in the province paying enough in premiums over a long period to pay losses, there would have to be extremely wide variations in the levy as between different areas. In the higher crop-yield districts where crop failure is less frequent, a premium of less than 5 per cent of wheat actually sold would provide protection, while in other sections of the province the same protection would involve a premium as high as 20 per cent of the crop. (It is assumed that in any scheme of crop insurance it would be necessary to eliminate sub-marginal land from grain growing and use it for more suitable production.)

The most cursory examination of crop insurance reveals that, just as in the case of Unemployment Insurance which involves substantial financial contributions from the Dominion treasury, any plan of crop insurance must be national in scope if it is to have a chance of success.

To give uniform protection, it would be necessary to zone the province according to average yield and soil conditions, and it would be necessary that all farms participate each year to give reasonable security over a long period. A scheme of crop insurance involving contributions by the Dominion and Provincial Governments, with a levy from the farmer, is worthy of further investigation and the Saskatchewan Government recommends that this be fully explored.

Continue Prairie Farm Assistance Act

Until such time as a satisfactory plan of crop insurance can be developed, the Saskatchewan Government strongly recommends the continuance of the Prairie Farm Assistance Act. This measure provides for a payment to farmers based on cultivated acreage, wheat yield being the yardstick used to determine whether payments are to be made. Under the existing Act the Governor-in-Council may declare any year an emergency year or may declare a crop failure area under certain conditions. The consensus of opinion seems to favour merging of the two provisions into one elastic enough to meet all conditions that arise.

The Act provides for a levy of 1 per cent of all grain marketed, and benefits are dependent on yield, price and cultivated acreage, with certain maximum payments. A crop failure may be declared if there is a minimum of 171 townships with an average yield of 5 bushels or less per acre as a result of causes other than hail. Payments vary with the cultivated acreage with a maximum and minimum award to farms qualifying for assistance.

Revision of P.F.A.A. Urged

Various criticisms of the Act have been made. Dissatisfaction has been expressed with the methods used in determining the areas in which the Act shall apply in a given year; with using the same category of yields for the entire west; with continued payments on submarginal land; with a uniform levy regardless of risk; with the exclusion of hail damage; with the size of payments; with a basis that does not consider the individual farms.

A good deal of confusion exists with respect to the compensation payable in "crop failure" and in "emergency" years respectively. It would be preferable to eliminate the crop failure clause and include its desirable features (including the guaranteed minimum payment) in the emergency year plan. If a minimum number of low-yielding townships were still insisted upon, that number would of course have to be reduced if the same yield categories as now obtain under the emergency year clause were required. It seems probable that farmers would be as well protected if the minimum were reduced to 100 townships or less on the 4 bushel basis, as they are at present under the requirement of 171 townships at 5 bushels or less. It cannot be over-emphasized, however, that insisting upon any arbitrary minimum number of townships before the Act becomes operative seriously reduces its value as a farm security measure. A comparison may be made here between the Prairie Farm Assistance Act and the Unemployment Insurance Act. In the latter, benefits are paid on the basis of individual need and are not withheld as in the case of P.F.A.A. until the problem reaches a certain magnitude. It is therefore, strongly recommended that this limitation in the P.F.A.A. be reconsidered with a view to its elimination. Further, it is highly desirable that compensation per acre be increased to at least \$4.00 per acre for areas yielding 4 bushels and less with corresponding increases over existing compensation in other yield categories. It is further recommended that the present system of determining boundaries for payment be made more flexible, with the object of approximating more closely an individual farm basis. Finally, it is highly desirable that the Act should become operative automatically rather than at the discretion of the Dominion Government.

A great deal of study has been given by Saskatchewan to the whole question of crop insurance and the application of the Prairie Farm Assistance Act. The problem is one necessitating a national approach and we urge that the whole matter be the subject of thorough study by a representative group with a view to the institution of an adequate system of crop insurance or a suitable equivalent.

4. PRAIRIE FARM REHABILITATION

With respect to the physical means of stabilizing prairie agriculture, the Saskatchewan Government recommends energetic action be taken through the extension of the activities under the Prairie Farm Rehabilitation Act including reclamation services, irrigation and water development, the industrialization of agricultural products and increased attention to research.

The Prairie Farm Rehabilitation Act came into operation during the period of drought and depression and has been instrumental in developing a program of soil and water conservation, and in sponsoring other activities for agricultural improvement. Water conservation has taken the form of construction of dug-outs, stock watering dams, small individual irrigation projects, pump irrigation and large scale irrigation development.

Widespread requests, from every section of the Province, are an indication of the enormous amount of public interest in water conservation and recognition of its value as a crop security measure and a means of assuring feed supplies in years of drought.

Community Pastures

One of the important activities under P.F.R.A. is the construction of community pastures. These may include abandoned farm lands, Crown lands, and some lands under private ownership. When land control in a proposed pasture area is complete, the field staff of P.F.R.A. proceeds to fence the land, develop a water supply and re-grass acreage which had previously been under cultivation. On completion of the pasture a local advisory committee is organized to assist in its operation. Purebred bulls are provided and have resulted in the improvement of the quality of the cattle in areas served by these community pastures.

Lack of effective control over submarginal lands is one of the greatest obstacles in the development of community pastures. For efficient operation it would appear necessary to obtain control of all such lands by title. The Saskatchewan Land Utilization Board has expressed the opinion through resolution that where it proves impossible to obtain title by tax proceedings or land exchanges, P.F.R.A. should have the power to purchase the land. This would appear to be the only logical solution to this vexing problem.

Expansion of the community pasture program should form part of any well-balanced land utilization plan. There remain, however, many areas of submarginal land in Saskatchewan which could be developed as community pastures with substantial local advantage but which are not large enough to meet the existing requirements of P.F.R.A. The Saskatchewan Government therefore recommends that an agreement be reached with the Dominion Department of Agriculture for the continued development of community pastures and that provision be made for the establishment of smaller units, where sufficient acreage is not available for a large pasture.

Finally, since the activities of P.F.R.A. are of great benefit to the farmers of Saskatchewan, the Government strongly urges that the scope of P.F.R.A. be extended to include all agricultural areas within the Province.

5. IRRIGATION

The greatest natural hazard faced by Saskatchewan farmers is obviously drought. Weather records indicate that from 1838 to 1848 drought affected large areas of the Province. There was a further period of low rainfall from

1885 to 1895 while the most recent catastrophe, as has been pointed out, was from 1929 to 1938. At the peak of this period, 1937, almost 50 per cent of the population were forced to accept relief and only the response of the people of Canada to this national calamity prevented widespread hardship and suffering.

During drought years feed and fodder necessary to sustain a reduced livestock population had to be brought in from as far west as British Columbia and as far east as Quebec as well as from the United States. The freight charges on this produce imposed a heavy additional burden, yet all of this feed and fodder could have been raised in the province under a well developed program of water conservation.

Importance of Water Conservation

Conservation of water in dugouts, individual irrigation projects and larger irrigation systems has been part of the program inaugurated under P.F.R.A. The experience of ten years has demonstrated the great value of this work, and it has been estimated that development of a complete water conservation scheme of dugouts, stock-watering dams, individual and community irrigation projects would require an annual expenditure of \$500,000 for a period of ten years.

It can scarcely be disputed that the greatest physical factor in stabilizing agriculture in Saskatchewan lies in a program aimed at the conservation and effective utilization of our water resources. Irrigation of large blocks of land is an undertaking of the greatest magnitude, the direct and indirect benefits of which would be far-reaching in effect, not only in assurance and stabilization of production in the area actually involved but for the province as a whole.

The Government of Saskatchewan fully recognizes that irrigation on a major scale requires careful study and detailed planning of all the engineering, agricultural and economic aspects. While it cannot be denied that the initial cost of such undertakings appears great, the benefits accruing from a fundamentally sound irrigation system would be enormous. Consequently, the Saskatchewan Government urges the most immediate and thorough investigation of all schemes proposed by P.F.R.A. and the construction forthwith of those found feasible.

Summary of Irrigation Projects

The following summarizes the various irrigation projects which have received study or upon which some work has been done:

PROJECT	Estimated Irrigable Acreage	Estimated Cost
Assiniboine River—Sask. and Man.....	20,000	\$ 800,000*
Notukeu Creek—Vanguard.....	4,000	160,000
Swift Current Project.....	25,000	1,500,000
Avonlea-Rouleau.....	4,400	200,000
Bear Creek Storage.....	10,000	300,000
Prince Albert Dam.....		400,000
Souris River.....	3,000	120,000
Wascana Creek.....		55,000
South Saskatchewan—pump.....	10,000	100,000
Battle River.....	10,000	300,000
North Cypress Hills.....	1,700	51,000
Pike Lake.....	10,000	200,000
Qu'Appelle Valley.....	30,000	900,000
South Cypress Hills.....	8,000	360,000
North Saskatchewan—Pump.....	200,000	6,000,000
South Saskatchewan—Thunder Creek.....	200,000	8,000,000
North Saskatchewan—Alta. & Sask.....	900,000	39,375,000
Totals.....	1,436,100	\$58,821,000
Alternative South Sask.—Sask. only.....	957,000	\$40,000,000
Alternative North Sask.—Sask. and Alta.....	1,411,000	105,600,000

*Project practically completed.

The above projects have been classified according to the stage reached in their planning. They may be divided roughly into three main groups.

- (i) Projects ready or practically ready for construction;
- (ii) Projects where preliminary investigations have been made;
- (iii) Projects where only reconnaissance surveys have been made.

Projects ready or practically ready for construction include: Assiniboine River development, Notukeu Creek-Vanguard, Swift Current project, Avonlea-Rouleau, Bear Creek Storage, Prince Albert Dam, Souris River and Wascana Creek.

Preliminary investigations have been made of the North Saskatchewan project, the South Saskatchewan pump project, Battle River irrigation, North Cypress Hills, Pike Lake irrigation, Qu'Appelle Valley and South Cypress Hills.

Only reconnaissance surveys have been made so far of the North Saskatchewan pump and the South Saskatchewan River-Thunder Creek projects.

Five-Year Program

The Saskatchewan Government strongly urges the inauguration of a five-year program of water conservation and irrigation development. During this period it is suggested that the smaller projects found to be feasible should be proceeded with and that survey work on the larger programs be continued at an accelerated pace in order that the schemes which have been proposed for large scale irrigation may be developed on the basis of full information on their engineering, agricultural and economic aspects at the earliest possible date. For convenience it is suggested that the program might be divided into three parts:

- (1) Projects to be undertaken as soon as possible;
- (2) Projects to be started with the idea of completion within five years;
- (3) Projects upon which all preliminary surveys should be completed within the next three years.

Included in the projects which the Saskatchewan Government considers should be undertaken immediately are the Notukeu, Swift Current, Souris and Wascana Creek projects.

(1) Immediate Projects

The Notukeu Creek-Vanguard irrigation project would provide water for 4,000 acres of land suitable for development and settlement at an estimated cost of \$160,000. This district is in the drought area of Saskatchewan and irrigation would alleviate many of the hazards of crop production. The proposed irrigation block would provide homes for at least forty settlers. The land in this area is particularly suitable for cultivation and climatic and soil conditions are satisfactory for crops that are most adapted to irrigation.

The Swift Current irrigation development is designed to provide water for 25,000 acres of land at an estimated construction cost of \$1,500,000. This project is practically completed but the federal Government should build the canals and structures necessary to carry the water to all the irrigated land.

The Souris River development is proposed to make use of Canada's share of the water from this international stream for irrigation, stock-watering and other purposes. The project is located along the Souris River Valley between Estevan and the boundary and would provide for the irrigation of 3,000 acres at an estimated cost of \$120,000.

The Wascana Creek survey has been practically completed. The project contemplates conservation of the water supply from this drainage basin for beneficial use. The proposed scheme would regulate the flow of the stream and consist of an earth-fill dam with syphon-type spillway capable of discharging

25,000 cubic feet per second. The development would maintain storage and provide water for sanitary and other purposes for a considerable number of rural and urban dwellers. The cost is estimated at \$55,000.

(2) Less Immediate Projects

Among the projects which should be started at an early date for completion within five years are the Assiniboine, Bear Creek, Battle River, Cypress and Pike Lake developments.

The Assiniboine River development contemplates construction of units to conserve the water supply of the Assiniboine River for irrigation, municipal, industrial and other purposes. A large amount of the work and consequent benefit would accrue to the Province of Manitoba. In Saskatchewan the proposed development consists of two connected reservoirs, one at Annie Laurie Lake and the other at Lomond Lake providing a combined capacity of 10,000 acre feet of water. The total irrigable acreage in Saskatchewan and Manitoba possible through this development is estimated at 20,000 acres at an estimated cost of \$800,000.

The Bear Creek storage project is designed to conserve the flood waters of Bear Creek for irrigating lands along Bear Creek or Piapot Creek or both. This construction would store water to irrigate 10,000 acres of land at an estimated cost of \$300,000.

The Battle River irrigation scheme would provide water conservation from Driedmeat Lake to the junction of the river with the North Saskatchewan at North Battleford. Storage facilities would be constructed and the water applied to the land by pumping. (Several projects of this nature are already in operation on the Battle River and are proving successful.) The irrigable area is estimated at 10,000 acres at an estimated cost of \$300,000.

The North and South Cypress Hills irrigation development proposes by conservation and regulation to obtain more complete use of the water supplies of this drainage area. Considerable development has already taken place but additional surveys are required to determine the irrigable areas and reservoir sites. Estimates indicate that a possible 8,000 acres are irrigable at a cost of \$360,000 on the South Cypress Hills project and about 1,700 acres at a cost of \$51,000 on the North Cypress Hills.

The Pike Lake irrigation scheme would receive water from the South Saskatchewan River just south of the City of Saskatoon. Preliminary surveys indicate that it is feasible to pump water from the river to irrigate from 6,000 to 10,000 acres at a cost of \$200,000.

A further project which should be undertaken as soon as possible with a view to completion within five years is the Qu'Appelle Valley development. This project is designed to create facilities such as reservoirs, gravity canals and pumping plants to irrigate land along the valley. Some development has already taken place with dams built at some points to store water in various lakes in the valley. Construction work should also proceed on the Avonlea-Rouleau and the Prince Albert dam projects. The first is designed to store the flood waters of Avonlea Creek for irrigation and stock-watering purposes by the construction of an earth-fill dam, the water also to be used to irrigate a tract of land along the creek. The second or Prince Albert dam project on the North Saskatchewan River is designed to create a pond of water for amphibious planes serving the North country. Postwar aeroplane activity for Northern Saskatchewan will undoubtedly increase and construction of this dam is recommended as one phase of the North Saskatchewan River water development project.

(3) Large Scale Irrigation Projects

Two large scale irrigation projects of vital importance to Saskatchewan are the proposed developments on the North and South Saskatchewan rivers.

The North Saskatchewan irrigation project is the only gravity irrigation scheme of any size proposed for Saskatchewan under the P.F.R.A. program. The plan visualizes conserving the water from tributaries from the North Saskatchewan River for irrigation of land in both Alberta and Saskatchewan. The scheme may be developed in any one of several ways. One is the proposal to store the water of the North Saskatchewan River in Buffalo Lake and Sullivan Lake in Alberta and by a system of canals and coulees transport it to the land to be irrigated. Another project considered to be economic would irrigate 900,000 acres, about 450,000 of which would be in Saskatchewan, at a total estimated cost of \$39,375,000. This development would involve the construction of a number of small reservoirs on the tributaries of the Red Deer and Clear Water rivers to store flood waters and make them available for irrigation when required. A further proposal suggests pumping water as an addition to the gravity system, thereby increasing the total irrigable area to 1,411,000 acres at a total cost of \$105,600,000. The dams necessary to store the water for this project would make it possible to develop considerable power, part of which would be used to pump water for irrigation and the balance would be available for distribution to rural areas and urban centres.

Large scale water development on the South Saskatchewan River has been suggested as a possible alternative to the above scheme. This project would call for a dam to be constructed on the river north and west of the City of Swift Current with diversion of water from the Clear Water, Red Deer and North Saskatchewan rivers west of the city of Red Deer as an additional supply for the South Saskatchewan River. The water would be diverted by a dam into White Bear Lake storage reservoir by gravity and would command an area for irrigation of 800,000 acres. An additional 157,000 acres could be irrigated from the same water supply by pumping. The total estimated cost is \$40,000,000.

Several alternatives have been considered and should also be investigated to determine their feasibility.

The South Saskatchewan project, if feasible, would provide water for irrigation and assure a water supply for the cities of Moose Jaw and Regina and many smaller centres. There would also be considerable hydro-power developed which would be available for industrial development and rural electrification. There is a necessity for continued engineering surveys to determine the feasibility of developing both the South Saskatchewan and North Saskatchewan rivers. In addition there should be immediate and complete economic, soil and agricultural surveys of the areas proposed to be irrigated from these projects. It is suggested that this work should be the responsibility of the Dominion Government.

Two further projects involving the North and South Saskatchewan rivers should be mentioned.

The first is the North Saskatchewan pump project which would take water from the North Saskatchewan River north of Saskatoon. The success of this development is dependent upon a supply of low cost power which could be made available by hydro development of the rivers of Saskatchewan. It is estimated that 200,000 acres could be irrigated by the North Saskatchewan pump project at a cost of \$6,000,000.

The South Saskatchewan-Thunder Creek pumping project proposes to use water from the river to irrigate flats in the river valley. The pumping site would be located near Riverhurst. The lift from the water level to the land to be irrigated would not be too high for profitable use. There are a number of places along the river where this type of irrigation could be used and would enable farmers to produce foodstuffs and perhaps some feed for livestock where suitable land was available. Such developments would be of great value to the agricul-

tural population and surveys should be completed at the earliest moment to determine the number and feasibility of such projects. It has been estimated that about 200,000 acres would be irrigable at an estimated cost of about \$8,000,000.

As has been pointed out it is essential to complete, at an early date, detailed surveys in connection with these larger irrigation projects. The Saskatchewan Government urges most strongly that these surveys be proceeded with immediately under a program designed to acquire all relevant data within the next three years.

Irrigation and Industrial Development

The Government of Saskatchewan is not urging exhaustive surveys and developmental work on irrigation projects solely for the purpose of reducing the hazards of drought or rendering more productive land which otherwise would not be suitable for agriculture. Irrigation has a wider place in the general program of economic stabilization in the province. If Saskatchewan is to achieve a well-balanced and stable economy there is an urgent necessity for some diversification of her industries. This problem must be approached from a national viewpoint since there cannot be national prosperity and well-being while a large geographical area and a considerable section of the population are subject to wide fluctuations of income and resulting economic instability.

Saskatchewan has no desire to become a self-contained economic unit within Confederation, industrially independent of Eastern Canada. It is felt, however, that the development of secondary industries processing the products and the by-products of primary industries would help to stabilize our economy and ease the violent fluctuations in income so prevalent in the past. It is further contended that such stabilization of Saskatchewan's economy would aid Canadian industry generally by providing a stable market in this province for its products.

From the point of view of industrial development, Saskatchewan is in a weaker position than any other province in the Dominion of Canada. In 1939 with 8.4 per cent of the population she accounted for only 1.8 per cent of Canadian industrial production. During the first two years of war the difference between Eastern Canada and Saskatchewan in the industrial field was further accentuated. Ontario, Quebec, British Columbia, and New Brunswick all recorded increases of over 70 per cent in the net value of manufactured products. Manitoba showed an increase of more than 50 per cent, while Alberta and Nova Scotia recorded increases of more than 40 per cent. Saskatchewan's increase during the same period was less than 40 per cent.

The Saskatchewan Government feels that there is considerable scope for industrial development in the province, along lines related to her natural products. Another important factor is power. This, too, may be derived as a by-product from the construction of irrigation systems.

Advantages of Irrigation

In brief, irrigation development would provide:

- (i) Stabilization of crop production and insurance against crop failure over certain areas;
- (ii) Diversity of crop production and increased livestock population;
- (iii) Stability of farm tenure and a higher standard of living;
- (iv) A broader and sounder base for industrial development;
- (v) Electric power;
- (vi) Greater stability of revenue for Dominion, provincial and municipal governments.

Suggested Agreements on Irrigation

In view of the many advantages accruing to farmers and to the Canadian economy generally from irrigation development to the extent that it proves feasible in Saskatchewan, and as irrigation development is peculiar to the Prairie Provinces and British Columbia, the Government of Saskatchewan suggests agreements with the Dominion Government dealing specifically with irrigation and water conservation and including

- (a) Continuance of P.F.R.A. small water development projects on present basis;
- (b) Development of large irrigation projects with responsibility of each contracting party to be as follows:
 - (i) The Dominion Government to conduct engineering, economic and agricultural surveys to determine feasibility of projects;
 - (ii) The Dominion Government to construct main structures for water storage and distribution to individual farms on those projects which prove feasible;
 - (iii) The Dominion Government to assume responsibility in perpetuity for all main structures (as determined by mutual agreement);
 - (iv) The Province of Saskatchewan to recommend areas for irrigation development;
 - (v) The Province of Saskatchewan to assist farmers in settlement problems;
 - (vi) The Province of Saskatchewan to assume responsibility for irrigation development of farms and to provide necessary agricultural advice.

6. AGRICULTURAL RESEARCH

One important reason for lack of stability in agriculture in the past has been the lack of knowledge of fundamental factors influencing the practice of agriculture in this province. In a new country this is inevitable during the early stages of development. Experience is an effective teacher, but it is frequently an extremely costly one. It has so proven itself in Saskatchewan. The Saskatchewan Government, therefore, urges a vastly expanded program of research in agriculture.

Research work is necessary in northern areas to precede agricultural development in that part of the province. Only in this way can mistakes in settlement and in agricultural practices be avoided. Unless means are made available for research, it is not unlikely that northern agricultural development will be characterized by instability and a new crop of adjustment problems. The particular items upon which research is required are too numerous and varied to be covered in detail in this submission, but the Saskatchewan Government urges most strongly recognition of the place of an expanded program of research in promoting agricultural stability in western Canada and Saskatchewan.

Research programs in the past have suffered several setbacks. First came World War I, then the depression and more recently, World War II. Even so, the results of research that has been carried on have already paid big dividends, one outstanding example being the great saving to agriculture and incidentally to the economy of the whole country through the production of rust-resistant wheat. Many other problems still await extensive study and there is little question that, given the proper facilities, future results will be as spectacular as that just cited.

Research and Education

Finally, in the national interest it is imperative that qualified research men coming out of our Canadian universities should find scope for the exercise of their talents within Canada and not be forced, as has frequently happened in the past, to seek a living outside the Dominion. This means that in any program of research such as that visualized in the Dominion Proposals, the position of the Universities should be recognized and every consideration given to making it possible for them to retain their qualified research men and embark upon a greatly expanded research program. Furthermore, it must be recognized that close contact between the student body and research activities is an extremely important factor in stimulating and in perpetuating an informed interest in research. In this connection reference may be made to the proposal that the Dominion assume full responsibility for research on soils, etc. (Proposals, p. 24). One of the main sources of information of professors in the Soils Department of the University of Saskatchewan has been the actual survey and soils research work on which they themselves have been engaged. Experience gained in this way equips them infinitely better to impart a thorough knowledge of the subject to their students. No plans for a research program should overlook this vital connection between agricultural research and education.

PART VI

LABOUR

The Government of Saskatchewan has frequently contended that there should be a substantial transfer of jurisdiction over labour matters from the provinces to the Dominion. We are today as much convinced of the desirability of such a transfer as we have ever been. We are satisfied that without such a change it will be impossible to secure reasonable minimum standards of working conditions for all Canadian labour regardless of provincial boundaries, to establish satisfactory machinery for the orderly settlement of labour disputes or to endow the Dominion with the powers which it will need to deal with economic crises.

Some proposals have been set forth below for enlarging the federal Government's powers in regard to labour. In the event, however, that these or similar proposals are not acted upon in the near future, certain transitional problems are bound to arise since, with the termination of the war, the Dominion will have to retreat from those labour fields which it found it necessary to enter during the war. We have therefore, also set forth some suggestions for dealing with these transitional problems. The question of unemployment insurance and assistance has been dealt with elsewhere in this brief.

1. RE-DISTRIBUTION OF POWERS

The Dominion has suggested that the British North America Act should be amended so as to make it clear that the provinces have the power to delegate to the Dominion any of the powers specifically assigned to them, and vice versa (Proposals, p. 20). An amendment of this character, of course, would apply far beyond the labour field, but, as the Dominion has pointed out, it would be of particular value in dealing with the many difficult labour problems which are bound to arise in the coming years. Saskatchewan is satisfied that it will be impossible to handle these problems successfully under the present division of constitutional powers. An amendment of the kind suggested by the Dominion would make it possible to effect an urgently needed transfer of jurisdiction in case the Dominion and one or more provinces are in agreement, without waiting for a specific amendment obligatory upon the Dominion and all the provinces. For that reason, Saskatchewan fully supports the Dominion proposal in this connection.

National Minimum Standards

We would like to go further, however. We urge a specific constitutional amendment to confer upon the Dominion power to put into effect minimum standards of national application relating to wages, hours of labour, holidays, age for employment and all other labour matters for which quantitative standards can be set. Federal legislation of this kind would tend to eliminate inter-provincial competition for industry at the expense of labour. It would also help to remove the serious deterrent to advanced labour legislation produced by the fear presently existing in the minds of provincial authorities that they might put the industries under their jurisdiction at a serious disadvantage.

It is to be understood that the above proposal is made on the assumption that no federal legislation which might be enacted would have the effect of reducing any labour standards at present in effect in Saskatchewan. We are satisfied that the present Saskatchewan standards are none too high and it is perhaps not amiss to suggest that any national standards should be at least as high.

Labour Relations

In normal times the jurisdiction of the Dominion in the field of labour relations is both extremely limited and highly uncertain, and this uncertainty is reflected in the confusing definition of the application of the Industrial Disputes Investigation Act. In the view of the Government of Saskatchewan, the opinion expressed in the Dominion Proposals (p. 19) "that because the Dominion Parliament has power over foreign corporations and companies incorporated under Dominion law, it has power over the labour disputes involving these corporations" is extremely doubtful.

It seems self-evident that as the industrial development of the country proceeds, provincial control over labour relations will become increasingly inadequate; yet once the present emergency is declared at an end the Dominion will, failing adjustments in the meantime, be thrown back into its pre-war position. The Saskatchewan Government is convinced that the Dominion will have to be given jurisdiction over increasing areas of labour relations. In fact, we suggest that the only fully satisfactory solution to the problem will be to give the Dominion jurisdiction over the entire field.

For that reason we urge that, in addition to the amendment already suggested in regard to national minimum standards of certain working conditions, the British North America Act should be further amended to give the Parliament of Canada exclusive power to enact legislation relating to trade unions, collective bargaining, unfair labour practices and the settlement of labour disputes. If this proposal should prove to be unacceptable at the present time, we suggest that at least the federal Government should be given jurisdiction over such matters in all industries which are clearly of national importance.

The views of the Saskatchewan Government as to the provisions which a national statute in this field should contain will be clear from the suggestions we have made below for the amendment of the Wartime Labour Relations Regulations.

2. TRANSITIONAL PROBLEMS

The two important provincial labour fields which the Dominion has occupied to a significant degree during the war are the fields of wages and labour relations. It seems to be generally recognized that both the Wartime Wages Control Order and the Wartime Labour Relations Regulations (or at least the basic policies embodied in those orders) will have to be retained for some time yet. It seems also to be generally agreed, however, that both orders will have to be substantially amended if they are to be used effectively in dealing with transitional problems. Some proposals for their amendments are set forth here.

Wartime Wages Control Order

It is not suggested that the wages control policy was not an essential part of the federal Government's program for the control of inflation. Neither is it suggested that the control of wages should be suddenly abandoned. Nevertheless, with the actual physical conflict now terminated, problems of reconversion must necessarily be given first attention. It is the opinion of the Saskatchewan Government that the problem of maintaining and extending the improvements in wages and related working conditions achieved during the war begins to assume almost as great importance as the problem of controlling inflation.

In particular, it is essential that basic minimum standards should be protected. Most provincial legislation relating to wages, hours, holidays, etc., is now out of date (where it exists), yet the provinces are prevented by the Wartime Wages Control Order from bringing their standards into line with present-day concepts of reasonable minimum standards. It has already been suggested in this brief that the federal Government should be given power to

establish national minimum standards. If that suggestion is not to be acted upon immediately, we insist that something should be done at once to rectify the present intolerable situation in which the Dominion takes little or no responsibility for minimum standards but at the same time prevents the provinces from assuming any responsibility. To restore to the provinces the powers which they formerly exercised could not have any serious inflationary effects, since the provinces will, as formerly, be concerned only with minimum standards, i.e., with the conditions of work of the most economically depressed workers.

The Saskatchewan Government strongly urges therefore, that, pending a move to give the Dominion power to establish national minimum standards, the Wartime Wages Control Order should be immediately amended to provide that none of its provisions will be deemed to override either present or future provincial legislation. It will be noted that this proposal goes far beyond the Dominion's offer to restore exclusive control over minimum wages to the provinces in the near future (Proposals, p. 18). In the opinion of the Saskatchewan Government, there is an immediate need to restore to the provinces their exclusive authority to establish minimum standards not only of wages but of all conditions of work which affect wages directly or indirectly.

From the purely provincial point of view, the above amendment is the one most urgently needed. Nevertheless, there are other modifications which are of equal or almost equal importance. In particular, consideration might well be given to introducing, through the medium of the Wages Control Order, a well-planned and systematic program for reducing hours of work without reducing wages. Unless such a program is instituted, prolonged labour disputes are almost bound to occur, and, even worse, the economy will inevitably be thrown into confusion as the better organized groups achieve shorter hours through sheer pressure while the hours and wages of the weaker groups remain unchanged. We would also like to suggest that the National and Regional Boards should begin to give serious attention to the problem of establishing uniform wages for entire industries and occupations over fairly large economic areas.

In short, we advocate that the Wartime Wages Control Order which has necessarily been in the past a purely negative instrument for the control of inflation, should become also a positive instrument for effecting an orderly transition from a wartime to a peacetime economy.

Wartime Labour Relations Regulations (P.C. 1003)

It has been suggested above that the federal Government should be given exclusive jurisdiction over labour relations or at least over labour relations in the major industries. It naturally follows, therefore, that Saskatchewan supports, as a bare minimum, the federal proposal that "the Dominion should retain its emergency powers over industrial disputes and conciliation into the transition period" and that it "should be able to revise the existing wartime regulations in the interim" (p. 19).

The principal wartime regulations in this field are the Wartime Labour Relations Regulations (established by Order in Council P.C. 1003 as amended). The coverage of these regulations is defined basically in terms of "war industries." Naturally, this definition will have to be entirely recast, and it is suggested that in the process an effort should be made to remove such obvious anomalies as the situation under which the provinces have jurisdiction over labour relations in an industry so clearly national as the meat-packing industry while a small local machine shop engaged principally in the production of automobile parts presumably comes under federal jurisdiction.

The re-definition of the coverage of the regulations is not the only change which is likely to be made. Since the revised regulations, in whatever form they may take, will most certainly cover industries where labour relations were under provincial jurisdiction before the war, and since the provinces will presumably still be encouraged to make the regulations apply to all industries under their jurisdiction, the provinces are also vitally interested in the revision of the regulations. The Saskatchewan Government ventures to suggest the following changes:

Specific Amendments

(i) Certifications should apply to trade unions rather than "bargaining representatives" because the present procedure of certifying bargaining representatives not only tends to produce confusion and administrative red-tape, but, even worse, it leaves the back door open for company unions. Moreover, the requirement that in order to win a vote a union must obtain the votes of 51 per cent of the employees eligible to cast ballots should be changed. It is suggested that a better rule for interpreting the results of votes would be one along the lines of the rule developed empirically by the now-defunct Labour Court of Ontario, or the practice of the National Labour Relations Board in the United States, or the provision written into the Saskatchewan Trade Union Act. The latter, for example, stipulates that a union is certified if it obtains a majority of the votes cast provided a majority of those eligible to vote actually vote. A rule of this sort prevents a fragmentary minority of employees from determining the bargaining agency for all the employees, and, at the same time, preserves the essentials of the accepted democratic practice whereby a majority of those voting determine the issue.

(ii) The section of the regulations prohibiting an employer from interfering with the formation or administration of a labour organization is good as far as it goes, but it does not go far enough. Even if an employer should be convicted of such an offence, there is no provision to eliminate the company union which he may have succeeded in establishing. The Board should be given authority to disestablish company unions. In addition, it should be impossible for a company union to be certified or to enjoy any of the other benefits of the legislation.

(iii) The procedure of attempting to enforce in the Courts the provisions directed against unfair labour practices has long ago been found wanting. In the regulations as they now stand, the Labour Relations Board has exclusive power to determine whether or not there has been a refusal to negotiate in good faith. As a very minimum, it would seem reasonable to give the Board exclusive power to determine the facts relating to all unfair labour practices. It is suggested, further, that the Board should be empowered to order the cessation of unfair labour practices, and since it is a body established by the federal Parliament it should have power to enforce its own orders.

(iv) Now that Canadian trade unions are reaching a mature stage of growth, the union security issue, together with related issue of the check-off, has become a matter of primary importance. Failing legislation to deal with it, it will become an increasingly prolific cause of strikes in the coming months and years. Unfortunately, the issue is one which does not lend itself readily to conciliation procedures since there is little, if any, room for compromise. In this respect it resembles the union recognition issue. After the union recognition issue was resolved by legislation in the Wartime Labour Relations Regulations and in provincial legislation of a similar character, strikes over union recognition were reduced to a minimum. It is suggested that the union security and check-off issues will also have to be resolved by legislation if a great deal of industrial strife is to be avoided. Saskatchewan proposes, therefore, that any national

law dealing with labour relations should provide that upon the request of certified trade unions, collective agreements must contain union security and check-off clauses.

(v) Finally, it is suggested that the conciliation procedure established by the regulations is too complicated and, in spite of the best efforts to achieve speed, too productive of delay.

3. CONCLUSION

Much of the preceding material has dealt with labour problems during the transition period from war to peace and also in anticipation that after the transition period the situation will revert to a condition of provincial control. The Government wishes to emphasize the opinion, however, that this will be an unfortunate occurrence and to press for a full consideration of labour matters at the Conference.

It is suggested in the Dominion Proposals (pp. 19, 20) that the Conference might appropriately consider phases of the problem of jurisdiction in labour matters. The Government of Saskatchewan contends that this consideration should be more than perfunctory: that it should involve a genuine inquiry into means to promote the welfare of labour as well as the desirability of giving control to designated governmental agencies sufficient to deal with economic crises.

It is the considered opinion of this Government that a minimum standard for labour should be established without delay as a national policy in Canada. Whether this should be achieved by giving complete jurisdiction to the Dominion Parliament, or whether there should be concurrent jurisdiction between the Dominion and the provinces may be arguable. It is worth noting that the Sirois Report contains the following recommendation (Vol. II, p. 49):

The Dominion Parliament should have jurisdiction to establish basic minimum wages and maximum hours of labour, and to fix the age of employment, leaving to any province jurisdiction to raise minimum wages, lower hours of labour or raise the age of employment if it so desires.

The Government will express no preference as between these two procedures at this time nor will it declare categorically that the desired end cannot be achieved through the device of delegated legislation. It does assert a willingness to study the problem along with the other governments. It will study the problem with the understanding that the goal in mind is to establish minimum standards for labour throughout Canada. It also asserts unhesitatingly that jurisdiction over labour disputes should be in the Dominion Parliament.

PART VII

CONCLUSION

Throughout this memorandum as well as in earlier presentations the Government of Saskatchewan has taken the view that the only excuse for the existence of governmental agencies is that human needs may be satisfied, and the proposals of the Dominion Government have been examined with that thought in mind. The Government has now, with certain important reservations, reached the conclusion that, in general, adoption of the proposals will make possible the satisfaction of human needs in Canada in increased measure.

As has been pointed out in Part I we feel strongly that the particularly hazardous economy of this province compels us to insist upon recognition of the principle of the adjustment grant. Similarly, we feel that the position of the self-employed, largely farmers, must also be recognized and provision be made for their security. These two matters are deemed to be imperative, if the interests of the people of Saskatchewan are not to be sacrificed, and we believe that the suggestions of this province are consistent with a national point of view.

There are many other details in the proposals of the Dominion to which complete adherence cannot be given but none of these is believed to be fundamental, and every province should be prepared to compromise to some degree. Many of these details have been mentioned in the preceding pages and will no doubt receive full consideration in committee. It is not proposed to discuss them further at this time, but in the opinion of the Government attention should be drawn to certain general considerations.

Canadian Federalism

It has already been emphasized that governments are institutions invented and evolved by human beings for the purpose of satisfying human needs. The normal criterion for all acts of governmental agencies must be the tendency of those acts to assist human beings in achieving satisfactory lives, and it is for human beings themselves to make their choice of satisfactions.

To this there can scarcely be any objection, but it must be obvious that if the choice of satisfactions is to be made effective through the action of government, there must be a definitely recognized power in some governmental agency to take the appropriate action. It may be seriously doubted whether in Canada, in many instances, there is any certainty as to which agency has the authority to act, and it may be doubted also whether in many cases the agency enjoying the authority is in a position to act in the national interest.

The federal system of government cannot be commended as giving a maximum of convenience. Prior to Confederation this was recognized by some of the political leaders of the period who would have preferred a unitary state but, sectional feelings being too strong to permit of this, a compromise resulted under which legislative powers were distributed between the Dominion on the one hand and the provinces on the other. It may reasonably be supposed that the factors making compromise necessary in 1867 are just as strong to-day, and it seems safe to anticipate that the federal form of government will continue in Canada indefinitely.

It seems, therefore, that we must regard the inconveniences of the federal system as merely a circumstance to be reckoned with in the future. That there are certain inconveniences is admitted, but the same may be said of most forms of organization and a federal union is certainly to be preferred to no union at all. At the same time it seems reasonable to urge that the federal system should be made as workable as possible.

The British North America Act

It would be strange indeed if a distribution of powers even if effective in 1867 should be adequate to the needs of 1946. As has been observed before, new occasions teach new duties and time makes ancient good uncouth. We believe that this statement is true of the present situation and that while the distribution of powers under the British North America Act may be fundamentally sound, nevertheless there are several particulars in which this Act, as a constitutional document, is ineffective to procure governmental action for the satisfaction of human needs.

The most disturbing feature is that amendments to this Act can be procured only by recourse to Parliament in Britain and that there is no agreement in Canada as to whether unanimity among the provinces should precede a request for an amendment or whether the provinces need be consulted at all. The Government of Saskatchewan urges that a method should be devised for amending the Canadian Constitution in Canada. It is suggested that the method might be by joint action of the Parliament of Canada and a stated number of the provinces. Such a method should prove sufficiently flexible to prevent domination by the dead hand of the past, and yet sufficiently exacting to guard against hasty action. The Constitution might well be enlarged to contain a Bill of Rights for the protection of minority interests.

It is also urged that action should be taken to procure the abolition of appeals to the Judicial Committee of the Privy Council. There is no quarrel with the intellectual calibre and integrity of the judges who have determined these appeals. That is not the point. It is submitted that the judicial process essentially consists in the application of logical processes to existing legal materials in view of the facts of life. It is further submitted that judges in an overseas tribunal do not know and cannot be expected to know the facts of life in Canada, and that owing to this factor the British North America Act has received an unfortunate and unnecessary interpretation in several instances.

Specific Amendments

In the opinion of the Government of Saskatchewan several amendments to the Constitution are already overdue. One of these would give the major control over labour and labour relations to the Dominion. The material contained in Part VI of this memorandum points in this direction and we believe that this change in jurisdiction is inevitable.

It is also recommended that an amendment be procured to the British North America Act making it abundantly clear that legislative jurisdiction may be delegated by the Dominion Parliament to a provincial parliament and vice versa.

It is further recommended that the Parliament of Canada be given power to implement treaty obligations.

Finally, it is suggested that constitutional changes must be made to secure effective control over marketing by designated governmental agencies. This is a matter which requires immediate attention and it is believed that the control

of marketing should include power to control prices as well as standards. It will involve a definite enlargement of the legislative power of the Parliament of Canada.

Agreement Not a Finality

The Government of Saskatchewan is sufficiently optimistic to believe that an agreement will be reached among the various parties to the present Conference using the Dominion Proposals as a basis for negotiation. It is also optimistic enough to hope that the agreement, when reached, will merely mark the beginning of a period of fruitful co-operation.

There is a danger that if an agreement is reached it may be taken as a formula of finality. This would be a tragedy indeed. As one distinguished scholar has said, "To rest on a formula is a slumber which if prolonged means death."

With this attitude the Government of Saskatchewan concurs. We believe that there is hardly any limit to the number of things that may be accomplished by the various governmental agencies in Canada working in co-operation. It may be suggested for instance, that the facilities of the Bank of Canada be used to finance an adequate housing scheme as well as a program of socially useful projects. The Bank of Canada should also give financial assistance to the municipalities of Canada at low rates of interest.

It is urged also that the Dominion government should cancel all provincial treasury bills held by them in respect of relief and similar obligations. These are the result of obligations which were entered into by the provinces during the depression, obligations for which they should never have been held responsible.

This province will also press for the fullest possible use of the Hudson's Bay Railway as a means of reducing the cost of living in Western Canada and facilitating increased trade. It will also press for a reduction in tariffs and freight rates and for a determined war against monopolies and cartels.

These are but a few of the matters in which co-operation is hoped for in the future and which are not dealt with in the Dominion Proposals. We do not seek to disguise the fact that the Government of Saskatchewan hopes for increased activity by governmental agencies. Nor is it uneasy that this increased activity will result in any decrease in human liberty. So long as these agencies keep before them the ideal of satisfying human needs there need be no fear for human freedom. The full life will not restrict liberty. Indeed it will make true freedom possible.

SUBMISSION OF
GOVERNMENT OF NEW BRUNSWICK
ON CERTAIN PROPOSALS OF THE DOMINION

January 24, 1946

January 24, 1946.

DOMINION-PROVINCIAL CONFERENCE

SUBMISSION OF GOVERNMENT OF NEW BRUNSWICK ON CERTAIN PROPOSALS OF THE DOMINION

Practically six months have elapsed since the present Dominion-Provincial Conference assembled. It convened on the invitation of the Dominion Government to study and devise new and better relationships and working arrangements between Governments in Canada as they face the task of post-war planning and reconstruction.

At the opening session a series of proposals were submitted by the Dominion. These were accepted by the Conference for analysis and study and as a basis of conference discussions.

Such proposals were founded on a widening conception of the responsibility of Governments to fashion and implement policies calculated to improve the social, economic and cultural conditions of all the Canadian people and, by strengthening our domestic fabric, better to fit our Nation for a constructive, progressive and courageous role in the new field of world government.

The ends envisaged call for a high degree of co-ordination of effort and co-operation at all levels of legislative and administrative activity in Canada.

The practical purposes which dominate the proposed Dominion program are the assurance of steady employment and production throughout Canada, the maintenance of a reasonably high national income and purchasing power, equitably distributed, and adequate standards of health, educational and welfare services throughout the Provinces.

The program advanced by the Dominion hinges upon the proposed new financial arrangements with the Provinces. These represent an adaptation of principles contained in the present Wartime Tax Agreements which terminate shortly. It is suggested that new agreements be entered into, effective for a limited period of time, whereby the Provinces will continue to vacate the corporation and personal income tax fields and as well relinquish to the Dominion the collection of Succession Duties. To compensate them for their abandonment of these revenue sources and place their finances on a more stable footing the Provinces would be paid by the Dominion annual grants calculated on an agreed formula. These grants would replace former pre-war subsidies and the annual payments under the existing Tax Agreements.

The annual grants suggested were stated to be, in the opinion of the Dominion, sufficient to enable the various Provincial Governments to discharge their constitutional responsibilities and functions and generally provide the services expected of them in the growing field of public administration. That suggestion of their sufficiency was naturally open to question and has been the subject of much discussion during the series of meetings which have taken place.

The formula suggested by the Dominion for determining the grants to the Provinces is in part simple and definite and in part very indefinite and complex. During the life of the agreements yearly payments would be assured the Provinces at the rate of \$12 per capita of their 1941 population (guaranteed as an irreducible minimum) to be increased rateably with annual population growth and the rise in value in any year of gross national production over the 1941 level.

Both principles are open to criticism as yardsticks for fixing the grants.

The gross national production factor introduces an element of uncertainty and may tend to embarrass the Provinces in periods of economic recession. Stability and certainty of revenues are essential for sound provincial planning

and financing, particularly for the smaller Provinces. At a time when, through conditions quite beyond provincial control, other revenues might be decreasing the Provincial Government would find its contribution from the Dominion Treasury also shrinking.

The converse of the Dominion proposal whereby the grants to the Provinces would increase proportionately with a decrease in the value of the gross national product would appear more realistic and easier of support.

The New Brunswick Government would suggest that the gross national production factor might well be dropped in the computation of the grants and that during the period covered by its agreement each Province be given a basic fixed annual grant not subject to any fluctuation.

The \$12 per capita feature is likewise open to challenge. Its flat rate application would ignore completely the fiscal need of the different Provinces. The omission of any suggestion that the existing level or standard of provincial services and their needs should be given consideration is strangely at variance with all previous approaches to Dominion-Provincial financial arrangements.

From the foundation of Confederation provinces have felt constrained to seek special financial terms with the Dominion, with some degree of success. A more recent instance was connected with the work of the Duncan and White Commissions, which resulted in new fiscal need subsidies for the Maritime Provinces. Again fiscal need was acknowledged as a sound principle in the Financial Plans of the Rowell-Sirois Commission, which at the 1941 Dominion-Provincial Conference were accepted in principle by the Dominion Government. In addition, in the 1941 Budget Proposals of the same Government, fiscal need was recognized as a legitimate element in determining the annual amounts to be paid the Provinces and was applied in certain of the Wartime Tax Agreements which resulted.

The present financial proposals have a peculiar incidence for New Brunswick. Our Province is unique in that our municipalities were occupying the income and corporation tax fields in a substantial way. This historic condition has created for them a vested interest in such fields which cannot be disregarded.

Under our present Tax Agreement the Dominion has been paying annually on account of the New Brunswick municipalities the sum of \$1,384,410.23. These monies, as received by the New Brunswick Government, have been distributed among the municipalities as compensation for their wartime abandonment of the taxation fields mentioned. Comparable provision must necessarily be made for them in the present negotiations.

No one can reasonably suggest that their need should be met out of the flat rate per capita grant proposed for all Provinces. On the basis of the annual sum that the Dominion has been providing for our municipalities during the war years the Government of New Brunswick would be obliged to divert \$3 and upwards of every \$12 received by it to indemnify the municipalities. To state that position is sufficient to prove the case for special consideration for New Brunswick having in mind that an avowed purpose of the Dominion's proposals is to place each Provincial Government in a position to provide the services for which it is constitutionally responsible.

As already indicated during committee discussions the New Brunswick Government must seek definite modifications of the financial plan advanced by the Dominion and attach certain conditions to any acceptance thereof. Such may, in the main, be summarized as follows:

1. A larger basic grant must be available to the Province than would result from the application of the Dominion's formula. A minimum grant based on an allowance of \$12 per capita of 1941 population is quite inadequate to permit expansion of existing services and the adoption of desirable new services, many of which have been suggested by the Dominion in its general program.

2. A special allowance or fiscal need subsidy should be available for New Brunswick to permit local and provincial services to be raised to the average standard prevailing throughout Canada without raising internal taxation beyond the general level in all provinces. In particular provision must be made to meet the needs of New Brunswick municipalities.

3. The Dominion should undertake to avoid for the period of the agreements any action in the taxation areas belonging exclusively to it which will hamper the provinces in their enjoyment of their remaining tax sources.

4. The Dominion should undertake to refrain during such period from entering any area of direct taxation presently enjoyed exclusively by the provinces and should abandon certain federal taxes which represent recent invasions by the Dominion of the direct taxation field. Such are:—

- i. Gasoline tax
- ii. Amusement taxes
- iii. Tax on electric power consumption
- iv. Taxes on long distance telephone calls and telegrams

5. Dominion controls and restrictions which interfere with provincial financing in the American market should be removed.

Subject to such safeguards as have been mentioned the Government of New Brunswick favours for the suggested trial period of three years the adoption of the financial arrangements proposed by the Dominion government.

This decision is, in no small measure, based upon the fact that acceptance of such plans involves no constitutional changes. With that in mind it is difficult for us to agree with those who profess to see in its adoption a threat to the Canadian federal system of government.

One can conceive of no more rational plan for the promotion of a true sense of national unity and the advancement of the welfare of all the Canadian people than the assurance and guarantee for all governmental agencies in the land of the financial resources needed for the discharge by them of their constitutional obligations and responsibilities.

SUBMISSION BY THE
GOVERNMENT OF NOVA SCOTIA
TO THE
DOMINION-PROVINCIAL CONFERENCE
1945-1946

January 26, 1946

January 26, 1946.

SUBMISSION BY THE GOVERNMENT OF NOVA SCOTIA TO THE
DOMINION-PROVINCIAL CONFERENCE
1945-1946

1. The Government of Nova Scotia has studied carefully the proposals of the Dominion Government presented to the Dominion-Provincial Conference on August 6, 1945, and it has given close attention to the answers made by the Dominion Government to a series of questions put by the Premier of Nova Scotia to the Dominion representatives at the meeting of the Dominion-Provincial Co-ordinating Committee held in Ottawa in November 1945.

2. Section 92 of the British North America Act gave to the Provinces exclusive jurisdiction over certain classes of subjects. The Provinces were given the right to raise revenues by direct taxation, but nowhere were they given this right exclusively. The Dominion has always had the legal right to raise monies by any mode or system of taxation, including direct taxation, though the latter right was not exercised by the Dominion until the year 1917. The Provinces, therefore, are required by the constitution to discharge certain functions, but yet they have no exclusive fields of taxation from which to gain the revenues necessary for the proper discharge of their constitutional obligations.

This lopsided arrangement should not be continued. The expenditures of local governments (Provincial and Municipal) before the war exceeded the Dominion Government's expenditures. Yet, today, even the limited tax fields open to local governments are being invaded by the Dominion.

In this connection it has to be pointed out that the Dominion Government in its answers to Premier Macdonald's questions would not agree to leave certain fields of taxation exclusively to the Provinces, as is demonstrated by the following quoted questions and answers:

Question 1—"Will the Dominion give now the guarantee that it will go no further into the field of direct taxation than these present proposals, or to put it another way, what fields of taxation will be left to the Provinces exclusively?"

Answer—"The Dominion is not willing to give general commitments which might hamper, in unexpected ways, future budgetary policy. The Dominion does not contemplate entering such fields as the taxation of real property or the taxation of motor vehicles in the hands of the user—the examples suggested by Mr. Macdonald."

Question 2—"Will the Dominion withdraw from those fields of taxation which it entered during the war period and which were previously occupied by the Provinces exclusively; for example, the gasoline, amusement and electricity tax fields?"

Answer—"Subject to the preceding answer, the Dominion is willing to consider proposals for specific undertakings on such taxes in the light of the other financial arrangements to be agreed and in the light of the extent of the responsibilities which the Dominion may be asked to assume. Such undertakings, if agreed, would be limited to the duration of the over-all agreement."

Question 3—"Will the Dominion say that it will not impose direct or indirect taxes of such severity as will seriously hamper the Province in their attempts to collect revenues in these taxation areas still left open to them? e.g. liquor."

Answer— “It will certainly be no part of Dominion policy to hamper the Provinces in financing their own requirements. While we would not be willing to give undertakings which would involve consultation with the Provinces in the framing of Dominion budgets, the Dominion would be willing to consider proposals for specific undertakings as described in the answer to 2 above and in the light of the same considerations.”

The answers quoted above are not satisfactory to the Government of Nova Scotia, and until the Dominion Government gives firmer and clearer assurances on these matters, it seems to the Nova Scotia Government that there can be no successful termination of this Conference.

It is obvious that if the Dominion continues to encroach upon the field of direct taxation, it will, in time, put the Provinces in a position where their entire revenues will have to be found in the form of grants made by the Dominion Government to the Provinces. Such a consummation appears to us to be contrary to the whole spirit of Confederation, and it would be unacceptable to the Government of Nova Scotia.

3. It seems to the Government of Nova Scotia than any financial arrangements between the Dominion and the Provinces of Canada must have regard to the relative wealth and taxable capacity of each Province. We do not believe that population alone is a sound basis for determining Dominion grants to the Province. A per capita grant which might be sufficient for one Province might prove inadequate for another less wealthy Province, or might, on the other hand, be excessive for a Province which is fortunately placed because of its geographical position, its greater natural resources, or its favoured position in the Canadian economy.

The Government of Nova Scotia believes that grants from the Dominion to the Province can never be an adequate remedy for the injurious effects of certain federal policies upon the Province, notably in the matter of tariffs and transportation. Subsidies from one Government to another do little more than make it easier for the receiving Government to balance its budget. They do not materially raise the economic level of the people of the Province.

The ideal condition would be found when all Provinces of the Dominion would have such revenues and such levels of economic well being among their people as to make the granting of subsidies by the Dominion Government unnecessary.

Nevertheless, subsidies have been paid by the Dominion to all Provinces since Confederation, and it may be that for one reason or another subsidies will always be required.

We would, therefore, be prepared to consider a proposal for a suitable irreducible grant calculated on a basis common to all Provinces.

It must be realized, however, that certain Provinces in spite of competent and economic administration, and restriction of expenditures to proper Provincial purposes, find themselves unable to maintain the standard of government services normal throughout Canada, upon the basis of a rate of taxation normal throughout Canada. Where such conditions prevail, they should be corrected by a special grant, the amount of which should be determined by the fiscal need of the Province.

4. The principle of fiscal need has been recognized, expressly or impliedly, by successive Governments of Canada since Confederation, and it has also been accepted by Commissions appointed by the Dominion Government, among which may be mentioned particularly the Duncan Commission on Maritime Claims in 1926, and the Sirois Commission in 1940.

The Government of Nova Scotia, therefore, holds to the view expressed by the Sirois Commission, that the fiscal need of Provinces should be the governing principle in the allocation of grants by the Dominion Government, and that such need should be calculated by a finance commission sitting permanently and functioning along the lines followed by the Commonwealth Grants Commission in Australia.

5. The Province of Nova Scotia suggests that, irrespective of the outcome of this Conference, preparations should be made now to restudy the duties and fields of operation of the Dominion and the Provincial Governments, that, where necessary, new allocations of powers and duties be made as between the Dominion and the Provinces, and that exclusive sources of revenue adequate to such allocations be provided for the Dominion and the Provinces.

6. Finally, the Government of Nova Scotia submits that an annual conference of representatives of the Dominion and the Provinces should be held at a fixed date. At these conferences consideration should be given to constitutional questions, the effect of tariffs, transportation rates and other federal policies upon the different sections of Canada, the uneven nature of industrial development in this country, the co-operative sharing of responsibilities and duties by the Dominion and the Provinces, and other matters of common concern to both Federal and Provincial Governments.

STATEMENT OF
HON. STUART GARSON
ON BEHALF OF
THE PROVINCE OF MANITOBA

January 26, 1946

January 26, 1946

DOMINION-PROVINCIAL CONFERENCE

STATEMENT OF HON. STUART GARSON ON BEHALF OF THE PROVINCE OF MANITOBA

Since the August meeting of the Dominion-Provincial Conference the Government of Manitoba has studied carefully the Dominion proposals which were presented at that time. We have examined these proposals from the point of view of the interest of the country as a whole and of the Province of Manitoba in particular.

The Government of Manitoba is in agreement with the basic principles of the Dominion proposals. We believe that they are designed to restore the meaning and spirit of the Canadian federal constitution in conformity with the far-reaching economic and social changes that have taken place in the 78 years of its existence. We believe further that one of the surest ways to destroy our federal system would be to leave its tax structure and its monetary and fiscal policy in such a condition that no government has the authority and the ability to take effective steps to prevent the return of the industrial unemployment and the low farm incomes which were so typical of the pre-war conditions.

While in agreement with the basic principles of the Dominion proposals, the Government of Manitoba feels that certain substantial modifications in them are necessary. The nature of some of the important changes and additions which we urge were discussed fully in our comprehensive submission to the August meeting. Although a number of these modifications are fundamental in character, they do not constitute an alternative which is in basic conflict with the Dominion's position.

The central feature of the Dominion's plan, upon which all other adjustments in Dominion-Provincial relations depend, is the proposal to transfer to the federal government by agreement the exclusive use of the principal progressive taxes, namely the taxes on personal incomes, corporations and inheritances. The Government of Manitoba strongly supports this basic proposal. The necessities for a sound and just tax structure in Canada in the post-war are no less great than they were during the war. For the Dominion to finance its vast post-war expenditures from indirect taxes which retard business, minimize consumption, bear with unusual severity upon the poor, and in these and other ways cause unemployment, is wholly unthinkable. This being so, the only alternative for the Dominion is to get from direct taxes upon incomes and inheritances a much larger percentage of a much larger budget than pre-war. This means that, no matter what stand they take at this conference, the provinces sooner or later must make a decision. They must decide whether they will exercise their legal rights to impose provincial direct taxes (and get less and less from them), or voluntarily relinquish these taxes for an adequate consideration, financial and otherwise. If insisting upon their rights under the British North America Act they cling to these taxes, they are clinging to taxes which the Dominion government under the same statute has an equal right, and also an impelling moral and economic duty to use in order to meet its own heavy post-war responsibilities. In this event the provincial governments

can only face in the short run the unpleasant and unpopular task of imposing wholly unnecessary and onerous income taxes upon their own taxpayers, and in the long run the prospect of getting less and less return from these taxes.

To attempt to carry the heavy responsibilities of government in the post-war period with the regressive and conflicting tax structure which we had during the depression would be both grossly inequitable and ruinous to the economy. We suggest that any solution of the problem of Dominion-Provincial relationships which does not provide Canada with a sound tax system is no solution of the problem which it purports to solve. Without a sound tax structure the people of Canada cannot be prosperous. If Canada is not prosperous it will be impossible for the provincial treasuries, regardless of their taxing rights, to balance their budgets and maintain their credit.

In our opinion, the only solution that has so far come before us by which we could achieve a sound, just and workable tax structure in this country is the proposal which would give the Dominion the exclusive use of the three main progressive taxes. With this basic reform the federal government would be in a position to finance its inescapable national responsibilities with an equitable and efficient tax system. It would make possible a practical arrangement for the equalization of the revenue sources of the different provinces and bring them to levels that are adequate to support the important functions of provincial governments in every part of Canada. Finally it would enable the development of a fiscal policy in this country which takes into account the inter-dependence of all its parts, which would encourage employment and which would render equal social and fiscal justice to Canadians in whatever region in Canada they reside.

Proposed per capita subsidy not adequate

In our formal presentation of last August we stated that the ". . . . practical question to-day is as to the adequacy of the consideration that the provinces will receive in return for the voluntary relinquishment of these (progressive) taxes." The Dominion has proposed ". . . . in lieu of present statutory subsidies and payments under the wartime tax agreements, and conditional upon provincial acceptance of its tax proposals, to pay each provincial government the sum of \$12 per capita annually, increased or decreased in proportion to the value of Gross National Production per capita as compared with that of 1941. This proposed annual payment would, however, be subject to an irreducible minimum equal to \$12 per capita of 1941 population."

The Government of Manitoba has examined in detail the likely effect of this subsidy arrangement upon the future budgetary position of the province if the proposals were adopted. In this connection, having regard to the fact that the Government of Manitoba's own responsibility to provide adequate provincial services is a continuing and growing one, we have prepared five hypothetical budgets covering the five fiscal years ending with 1950-51. In these budgets we have provided for expenditures to cover the continuance of existing and future services which are necessary and unavoidable. The revenues which we have used, include our estimates of revenue from those sources which would remain with us together with the proposed Dominion \$12 per capita grant to the provinces. We have made three separate calculations of these revenues based upon three different assumptions as to possible levels of gross national production; one at \$8 billion, a second at \$10 billion, and a third at \$12 billion, in each case making an allowance for the annual increase in population.

The purpose of setting up these budgets was to estimate the position of the Manitoba treasury after different hypothetical dispositions of the issues which are under consideration by the conference.

One alternative which is open is to do nothing, let the Tax Suspension Agreements expire, and have the provinces take back the income and corporation tax fields and carry on. We ourselves are strongly opposed to such a negative policy. It would, in our judgment, be extremely injurious to the Canadian people and our figures show that it would leave the treasuries of the less favoured provinces such as Manitoba in an impossible position. For Manitoba the adoption of a do-nothing policy and the reversion to the pre-war tax structure would imperil our solvency and destroy our credit.

What would our position be under the other extreme, that is if the Dominion financial proposals were put into effect and if we took advantage of the full National Health Insurance Program, the proposed old age and blind pensions schemes and the full technical education proposals? Our calculation on this budget shows that unless we passed on to the municipalities the major part of the provincial share of these social service and educational proposals, we should be faced with a heavy deficit, even if the extremely high wartime level of business activity should continue and gross national production should remain at \$12 billion or higher. On the basis of a more moderate assumption of gross national production of \$10 billions, we would encounter annual deficits of many millions of dollars. It is clear that if it is planned to put the full National Health Insurance Program, the proposed old age and blind pensions, the full technical educational plan into effect, to say nothing of developmental investments, Manitoba will require a grant from the Dominion Government considerably in excess of the proposed \$12 per capita.

Even if we leave out of our budget a large part of the technical education proposals and if we leave out the second stage of the National Health Insurance Program, and if we provided only necessary and unavoidable provincial services we could balance our budget on the basis of the proposed Dominion subsidy at a level of gross national production of \$10 billions per annum, only by imposing new provincial taxes. These, however, would not be major increases in taxation. By these new taxes and by passing a considerable share of the cost of the first stage of health insurance on to the municipalities, we could balance this last mentioned budget by a narrow margin. Such a close balance would not leave our treasury in the strong position in which it must be if our credit is to be adequate to enable us to collaborate with the Dominion Government, either on developmental expenditures or on capital expenditures to stimulate employment during a business decline.

Since the Dominion proposals anticipate that the provinces are to collaborate with the Dominion Government in developmental expenditures on an important scale, and that the provinces are to be able to avail themselves of the proposals (such as for technical education) for which the Dominion Government is providing conditional grants-in-aid, it will be essential for the province to have additional revenue above the \$12 per capita subsidy. This is true even if Canada continues to enjoy a level of gross national production of \$10 billions per annum. If gross national production drops below this level and particularly if there is a serious decline in farm income, our position would become completely untenable.

Necessary to Minimize the Financial Cost of Provincial Borrowing

Moreover, an unavoidable increase in provincial debt resulting from the carrying out of essential provincial public works contemplated by the Dominion proposals, will leave us in a few years with a rising curve of debt charges which in itself would put our budget out of balance unless there is a further reduction in basic interest rates, or unless the growth in the national income so increases our revenue as to offset the rise in debt charges.

Hence it would appear that some means beyond those indicated in the Dominion proposals will have to be found of minimizing the financial costs of carrying these debt charges. In this connection the suggestion which has been made that the use of the American money market for provincial borrowing should be barred to the provinces is one with which we disagree. It seems to us elementary that the barring of the provinces from a competitive money market must necessarily have the effect of increasing their interest costs.

Supplemental Subsidies Based upon Fiscal Needs Essential

The Dominion financial proposals, while constructive in their general conception, do not recognize sufficiently the basic fiscal inequality of the provinces. The proposed uniform per capita grants do not by themselves alone take into account special circumstances that may exist in some provinces, nor do they meet the special needs resulting from emergencies and adversities that may arise in the future. In the agricultural provinces there is always present the danger of general crop failure with its absolutely crippling effects upon large sections of the population as well as upon provincial finances. To take care of eventualities such as this, there should be provision for supplementing the per capita payments with special grants based upon fiscal need.

Financial Responsibility of Provinces Should Be Retained; Need for a General Field of Provincial Taxation

The proposed transfer of the principal progressive taxes to the Dominion and the payment of per capita grants to the provinces which constitute a large portion of their revenues, raises the basic question of the financial responsibility and administrative efficiency of provincial governments. We believe in the maintenance of provincial autonomy. We believe that provincial autonomy and provincial financial responsibility are inseparable. A government is only responsible if it has the right and duty to impose and collect its own taxes to raise the money necessary to take on any new expenditures which appear to it to be desirable. The mere fact that a considerable part of provincial revenue is obtained from the Dominion would not by itself destroy provincial responsibility provided that the province must finance out of its own taxes any extra, special, or unusual expenditures which it undertakes. Clearly if all the provincial government has to do to pay for extra expenditures is to send the bill to the Dominion, there is no financial responsibility. Neither is there any provincial responsibility if it must persuade the federal treasury of the need for any given expenditure before the necessary funds can be provided. But if the extra or new expenditure is to be met by increasing an existing tax, imposing a new tax or by curtailing some other service, then the province will retain a sufficient measure of financial responsibility to promote prudent administration and preserve provincial autonomy. However, to exercise financial responsibility and to have resources for desirable future growth in services, the provinces must have an available field of taxation to take the place of the one which they have surrendered. Since the other tax revenues of the provinces are already utilized in the support of the normal provincial budgets, we therefore feel that if the progressive taxes are given exclusively to the Dominion the financial responsibility of the provinces can only be assured by making available to them a substitute field of taxation in which they can collect the funds for any new projects which they undertake.

Implementation of Health Insurance Program

There is great urgency in Manitoba for better health services, especially for our rural people. To meet this need the first stage of the National Health Insurance Program should be inaugurated at the earliest possible date. As a

necessary foundation there should be immediate implementation of the Public Health Grants, together with financial assistance for a rapid increase in hospital facilities. To provide the necessary improvement of health services in rural communities we must encourage medical personnel returning from the Armed Services to practise in rural areas. We must provide to them proper hospital and diagnostic facilities. The first stage of the National Health Insurance Program makes this possible. Its implementation is a vital and immediate need.

There Should Be One System of National Old Age Pensions

The Dominion proposals regarding old age pensions envisage a dual system of administration. One system would be administered and paid for by the Dominion Government itself, providing pensions of \$30 per month beginning at age 70 without means test. The other would provide payment of old age assistance for ages 65 to 69, subject to a means test and would be administered and paid for by the provinces and municipalities, with the Dominion contributing one-half of the cost. The Manitoba Government contends that the Dominion Government, having recognized its responsibility for the payment of old age pensions without means test to persons of 70 years and upwards, should provide old age pensions without means test below 70 as well. We contend that for two old age pension systems to be operating at the same time, one administered wholly by the Dominion Government without means test, and the other administered by the municipalities and provinces subject to a means test, would surely create friction and misunderstanding, and would require, at large expense, duplicate administrative machinery in both the federal and provincial fields. In our view it is much preferable to have one system administered and paid for by the Federal Government, even although this may involve adjustments in other fields.

The Manitoba Government will assist by ancillary legislation or otherwise to enable the Dominion Government to adequately control marketing and stabilize farm income

Perhaps the strongest support for a stable economy in Manitoba would be for the stabilization of farm income in this province. The most dependable long-term basis for accomplishing this end, is by developing the largest possible volume of multilateral trade. The present Western Canadian agriculture has been built for a market many times the size of the Canadian domestic market. Therefore, a continuation of the present level of agricultural production in Western Canada depends upon our ability to sell large surpluses of agricultural products for export. The nations to which we sell such surpluses can pay for them only if we are prepared to accept payment in the form of goods or services produced by other nations. If we are not prepared to accept the goods and services of other nations, the only way that we can get rid of our surplus wheat, for example, is by an outright gift, or by credits which will not be repaid. Thus, if Canada is going to maintain favourable export markets for Western farmers, it can only do so by maintaining in Canada favorable import markets for the goods and services of other nations. In the past, far too little interest has been shown by Canada as an exporting country in the problem of providing her potential customers with the means for paying for the goods that they are anxious to buy from us. In order, therefore, to encourage exports realistically, we must effectively encourage imports on a multilateral basis.

To the Western Canadian farmer nothing is more important than markets. Compared to it, the other benefits and savings which might be secured by governmental action are relatively less significant. If the farmer's market and

his gross income can be maintained, he can survive under other disabilities. If his markets and his gross income are not maintained, the solving of his other problems will not save him.

Governmental policies for obtaining and maintaining such markets are almost wholly the responsibility of the Dominion Government. Yet we in Manitoba are directly concerned in all of the Dominion Government's policies to develop the largest possible amount of multilateral trade. To meet the necessity which the present world economic environment is likely to impose on the marketing of Canadian production, the Dominion Government will have to play a larger part than heretofore. In the early stages Government purchases from the Canadian farmers of food products and the gift of some of these to other countries may be necessary. At a later stage the Dominion Government may be called upon to grant or to guarantee credits in respect of Canadian exports, and to support domestic prices, which indeed during the period of transition the Dominion Government is already pledged to do. In all of these actions the Dominion Government will be a buffer between the Canadian farmer and an extremely difficult world market. In all of these actions the Government of Manitoba will support the Dominion Government; and in particular it will do all within its power to vest the Dominion Government with the necessary jurisdiction to take such actions after its present wartime authority shall have expired.

Full Employment Depends Upon Solution of Problem of Public Finance

The Wartime Tax Suspension Agreements between the Dominion Government and the provincial governments will all expire in less than a year and a half from the present time. When these agreements expire, the provinces will continue to have their present responsibilities and will be entitled to re-impose their provincial corporation and income taxes. What will the provinces' post-war position be under this status quo? The briefs which have been filed on behalf of the provinces indicate that the task of securing enough revenue by their re-imposition of provincial corporation and income taxes on top of high levels of federal taxes in these same fields, will be an extremely difficult one, even in the more affluent provinces and an impossible task in the less favoured ones.

There has occurred during the war an immense increase in Canada's productive capacity. This increase in productive capacity has been put to full use to meet the insatiable demands of war. The result has been to achieve new record high levels of national income. It is to this present high level of Canadian national income that our present tax collections, our present employment index, the service of a greatly increased national debt and the prosperity of our federal, provincial and municipal treasuries are all geared. If we permit this national income to fall rapidly and steeply from its present very high figure, the adverse effects of such a fall will spread throughout the whole Canadian economy. The present level of income and employment is the result of wartime spending. To maintain this level we must try to maintain the total of peacetime spending by governments, business and citizens as closely as possible to the wartime level. This means that as compared with the pre-war standard, we must achieve a great increase in the Canadian standard of living. In the field of government a very substantial part of this increase must take place in those matters which come under provincial jurisdiction, namely in education, health and public welfare, natural resources development, road building, provincial public works. An increase in the standard of these essential services is therefore dependent in large measure upon the financial ability of the provinces to take care of these matters which fall under provincial jurisdiction. If the provinces lack financial capacity these provincial matters will not be handled adequately, and to this

important extent the Canadian standard of living will not rise sufficiently, the national income will not be maintained, and there will be greater difficulty in maintaining adequate employment.

This Conference, therefore, is dealing with a matter which goes to the root of our ability to perpetuate our present wartime prosperity into the post-war period. Our failure to equalize the financial capacities of the provincial governments will certainly have the effect of presenting a more difficult treasury problem to all provincial governments. But it will have much more than this. The cost of our failure to establish a sound tax structure and to equalize the financial capacities of the provincial governments will be that the whole Canadian people, rich and poor, in the wealthy and less wealthy provinces alike will fall so far short of achieving the prosperity and employment of which they are capable, that this country will be in danger of suffering mass unemployment and depression.

*Delay in Conference Decisions Holds Up Post-War Plans of
Both Government and Industry*

Even delay in settling this matter will be costly. Until it is settled neither the Dominion nor the provinces can rationally draw up their budgets for the next fiscal year because they do not definitely know the extent of their revenues and their expenditures. They therefore cannot plan satisfactorily their road-work, their health, their educational and other programs. They will not be able to deal properly with transitional unemployment, for whether the responsibility for unemployment relief is to be assumed by the Dominion or to remain under the jurisdiction of the provinces will depend upon the decisions of this Conference. Likewise until the allocation of taxes as between the Dominion and the provinces has been decided by this Conference, industry and commerce will not know what taxes they will have to pay to the Dominion and what to the provinces, and will be unable to make their plans accordingly.

The Manitoba Government has prepared plans which are designed to form a part of a closely integrated national plan for Canada. This has been our policy from the outset. We recognize that in the final analysis the Government of Canada must accept the primary responsibility for formulating and carrying out any over-all national plan of which we expect our Manitoba plans to form a part. The implications of this policy are, of course, that we are prepared to discuss our plans with the appropriate federal department and endeavour to carry them into effect in conformity with national interest, particularly with respect to priorities and timing.

In August last we submitted to the Right Honourable the Prime Minister of Canada, seven memoranda dealing with those of our post-war projects to which we would give the highest priority. These memoranda related to:

1. Farm Electrification
2. Buildings and schools required for agriculture
3. The extension of Manitoba's health plan
4. Highways, drainage and other public works
5. Schools and other buildings required for educational purposes
6. Projects and services relating to the conservation of natural resources
7. Municipal projects, including sewer and water for small towns.

Each of these headings covered several items. The largest, No. 6, being projects and services relating to the conservation of natural resources, covered 22 sub-headings. Negotiations for the purpose of co-ordinating provincial and Dominion timing and of qualifying these provincial projects for Dominion grants

came to a stop in the middle of November, with a letter from the Acting Prime Minister to the effect that "agreement on action in this regard must of course be affected by the general outcome of our forthcoming discussions with all of the provinces".

The carrying out of these projects would give a considerable impetus to post-war activity in our province, and in many cases (such as mining roads to proven ore deposits) would both in the building and particularly after completion, create employment opportunities for Canadian citizens. It seems likely that this is a fair sample of the sort of activity which is held up in every province in Canada until a decision can be reached at this conference. It is fortunate, therefore, that all the members of the conference have from the beginning approached their duties with such a solemn realization of their importance and with such a zealous determination to reach a decision which will be in the best interests of Canada and her people. As has been said, this conference must succeed because it dare not fail.

DOMINION-PROVINCIAL CONFERENCE
CO-ORDINATING COMMITTEE

Statement by the Prime Minister of Canada
at the Opening Session, January 28, 1946

January 28, 1946.

DOMINION-PROVINCIAL CONFERENCE

CO-ORDINATING COMMITTEE

*Statement by the Prime Minister of Canada (Rt. Hon. W. L. Mackenzie King)
at the opening session, January 28, 1946.*

In welcoming the Premiers and other representatives of the provincial governments to the sessions of the Co-ordinating Committee of the Dominion-Provincial Conference, I should like, at the outset, to express appreciation of the very serious consideration all the participating governments have given to the problems we are seeking to meet.

The Objective

Since the Conference first met the war has come to an end, and we have been in a position to give our full attention to the problems of reconstruction. There is one other advantage we have enjoyed since the Conference had its first session on August 6th last, namely unanimity as to our objectives. We have all been agreed on the objectives, as set forth by the Dominion, that what we are seeking is the maintenance of a high level of employment and national income; the enlargement of opportunities for individual and community development; and the fullest encouragement of enterprise, whether in its appropriate field the enterprise is public or private. It is achievement in these particulars which will make possible a rising standard of living, and increased social security for the people of Canada in all the provinces of Canada.

We have equally recognized that the Dominion government and the governments of the provinces all have a part to play in reaching those objectives. We are also agreed that the objectives can only be attained if all governments are in a position to discharge their functions effectively. We know that these objects can be attained only if, in certain vital respects, all are prepared to work together in harmony.

The Procedure

It might be helpful to review very briefly the procedure which has been followed in our efforts to work towards a firm foundation of Dominion-Provincial co-operation in the achievement of the objective on which all are agreed. At the opening sessions of the Conference in August last, the Dominion submitted a comprehensive set of proposals. We made our proposals in no "take-it or leave-it" spirit. We invited the provinces to make proposals as well as to suggest modifications of our proposals. Certain of the provinces submitted proposals of their own at that stage. The other provinces made informal statements. The Co-ordinating Committee was established and November 26th was set as the date for its next meeting. The purpose of the adjournment was to provide time for the study of the Dominion proposals and the preparation by the provinces of comments, criticisms or alternative proposals. The Co-ordinating Committee met on November 26th. After a useful exchange of views, the Co-ordinating Committee set up an Economic Committee which held meetings between December 4th and 14th and, again, between January 8th and 17th.

By its terms of reference, the Economic Committee was a fact-finding body which made no collective report. Its members all reported to their own governments.

The Economic Committee discussed in detail the Dominion's financial, social security and public investment proposals and some suggested modifications of certain of these proposals. In addition, the governments of Ontario and Saskatchewan submitted briefs which were considered by the Committee. The financial proposals of the Ontario government were examined in detail on the same basis as the financial proposals of the Dominion.

The Co-ordinating Committee is now resuming its sessions to continue its deliberations in the light of the information and clarification provided by the detailed examination made by the Economic Committee.

Dominion Attitude

Before we resume these discussions, may I again recall the approach of the Dominion Government to the solution of our common problems. It is the view of the Dominion government that our federal system of government should be preserved and its federal character strengthened. At the plenary session on August 6th last, speaking on behalf of the Dominion Government, I said:

We do not believe that unity is to be found in uniformity, in standardization or in centralization. We believe the unity and strength of Canada are equally dependent upon the soundness and strength of the provinces, and their capacity to discharge their functions effectively. We believe that only when the provinces are relatively secure in their own spheres can we achieve the co-operation among all governments so essential to our country's needs.

May I say that my colleagues and I have never deviated from these views, and have scrutinized every aspect of our proposals in the light of the general principles there laid down. The changes we have suggested are those we believe will strengthen the position of each government in its respective field.

None of the changes we have suggested in the main Dominion proposals involve constitutional amendments or any fundamental disturbance of the traditional pattern of Confederation. We are neither proposing nor seeking irrevocable commitments in this unsettled period of world transition. We are seeking rather to meet urgent needs by the simplest and most effective means. In the hope of securing the greatest possible degree of co-operative effort, we are seeking to proceed only after the fullest and frankest discussion with the provincial governments.

It is in this light that the Dominion government has undertaken to give thorough consideration to all suggestions for modification of its own proposals and to any alternative proposals made by the provinces.

Modification of Dominion Proposals

Most of the proposals of the provinces have had as their starting point the Dominion proposals. They have been, in effect, suggested modifications of what we have proposed. In this connection, let me say at once, that as a result of the discussion of provincial submissions and of further information and study of the position of the provinces, the Dominion government is prepared to raise the minimum proposed unconditional payments to provinces, and to make certain other modifications, which may be considered by the provinces to be necessary to the conclusion of a general agreement.

In its proposals, the Dominion Government has not sought to encroach on provincial fields of administration. The Dominion has offered to make certain specific payments to employable unemployed and to people over seventy. These are obligations which the provinces wish the Dominion to assume. The Dominion feels, however, that it should not become involved in the complex administrative problems of providing welfare services to these and other groups, and, in fact, the Dominion proposals suggest no change in constitutional responsibilities.

In relation to taxation the original Dominion proposals were for a three year vacation by the provinces of the fields of provincial income and corporation taxes and succession duties in return for payments from the Dominion related to the gross national production, but with a guaranteed minimum. The device of a Dominion-Provincial tax agreement is a technique with which we have already had some experience. During the war it proved to be both an effective method of meeting the tremendous national responsibilities with which we were faced and of providing satisfactorily for the fiscal requirements of all the provinces. It is, moreover, a proposal wholly in line with the original scheme of Confederation.

One of the most essential features of Confederation—and one without which Confederation could never have been achieved—was the exclusive occupancy of the major sources of tax revenues by the Dominion, and the payment of subsidies by the Dominion to the provinces, in accordance with a specific formula. At the time of Confederation, the provinces received from the Dominion in subsidies about 60 per cent of their total ordinary expenditures.

Since Confederation the inevitable and proper increases in the functions of government have increased the need for federal subsidies, and increases have been made from time to time. The depression of the 1930's brought home this need to everyone, and it resulted in the setting up of the Rowell-Sirois Commission. The heavy unemployment of the 1930's necessitated extensive Dominion assistance to the Provinces, although the ad hoc arrangements then made were most unsatisfactory both to the Dominion and the provinces. Subsequently, the tremendous demands of war created a financial problem which could only be met by placing income and corporate taxes under one authority with compensation to the provinces in the form of specified payments from the Dominion.

Our wartime taxation and compensation arrangements have worked well. That is recognized by all. The financial problem of the Dominion has not vanished with the war. The war, in fact, has left the Dominion with very heavy financial obligations.

The question now is whether the need of the provinces for additional revenue can best be met by double taxation, by increasing provincial taxes and by transferring taxes collected in one province to another, or whether it can best be done by extending and adapting to peacetime conditions the arrangements we found necessary and useful in meeting the needs of war.

The Dominion's proposals for large unconditional payments to provinces should not introduce any element of irresponsibility in provincial expenditures: the payments to the provinces are specifically determined sums for value received. The provincial governments, which must also raise revenues from their own fields of taxation, cannot escape the responsibility for deciding whether expenditures in any given case should be increased, or whether taxes might be reduced.

The most important, and at the same time perhaps the most controversial of the Dominion proposals is that the provinces should allow the Dominion Government sole use, for a certain period of years, of the fields of personal and corporate income taxation and succession duties. Some may fear that failure of the provinces to reoccupy part of these fields of taxation will limit or restrict

provincial activities in years to come by reason of the fact that revenues will not be as large as they would otherwise have been. It may be feared that this situation would weaken provincial autonomy and enlarge the Dominion's field of responsibility. Let me say that, if we thought this fear was justified, my colleagues and I would not continue to press the Dominion's proposals.

It is because we believe that the provincial governments will be better off, and also because we believe the taxpayers will be better off, under the Dominion proposals that we ask for the fullest consideration of our proposals and of the alternatives.

The Dominion government put forward its proposals for sole occupancy of the fields of taxation referred to because we could think of no other way in which our objectives could be effectively attained. All the plans which have been put forward for social security, for an improvement in standards of nutrition and of health, for a general betterment in the living conditions of our people, depend, for their continued success, on a high level of national production. Only with a high level of production and national income can the real costs of the program be met.

It cannot be denied that the rates and character of income taxation vitally affect consumption and production. Such taxes may either encourage or discourage initiative and new investment. They influence wages as well as employment. Moreover, a given rate and type of income taxation can have different effects at one level of national income and activity as compared with another level. For example, our war-time taxes have made a necessary and vital contribution to the prevention of inflation and to the payment of war costs. Under normal peace-time conditions, they would have constituted a crushing burden and potent source of unemployment. Any government which is committed to a policy of high employment must be prepared and able to make swift changes in its taxation policy in the light of changing conditions.

I do not think that any Canadian Government could in good conscience commit itself to a policy of high employment, and assume the degree of responsibility suggested in the Dominion proposals for the unemployment which may exist if things do not always run smoothly, unless that government could move freely and without impediment in the fields of income and corporation taxation and succession duties.

Since this is a crucial point in the Dominion proposals I might add that, when we speak of efficiency of taxation, we have in mind more than tax collection costs to governments and taxpayers. We are even more concerned that our Canadian income and corporation tax system should be efficient in the sense that it imposes the least possible discouragement to the incentives of persons and corporations to expand their operations and increase employment.

Forecast of Tax Policy

The Dominion proposals include a wide extension of social security, the cost of which will be met in part by direct personal contributions. In respect to the general personal income tax, the Government is now prepared to say that, once the Dominion proposals are accepted and the risk of having Dominion policies nullified by provincial policies having contrary economic effects is thereby avoided, the Government intends to make further reductions in the personal income tax. In the same circumstances, the Government also intends to reduce the element of double taxation of corporate income with its tendency to discourage risk-taking enterprise.

The Ontario proposals

In response to the Dominion's invitation, a large number and wide variety of proposals and suggestions have been submitted by the provinces. We shall, I hope, proceed to an orderly consideration of the major points of these provincial submissions by this Committee. We wish to give the same full consideration to the proposals and suggestions of the provinces which they have given to those put forward by the Dominion. A number of improvements on the Dominion proposals have been suggested and I have already intimated we are prepared to make certain modifications in the light of these submissions. Other suggestions, of course, are more difficult to reconcile with the Dominion approach. The greatest difference of approach is that made in the brief submitted by the government of Ontario.

Procedure

Since the greatest difference of approach is that made by the government of Ontario, I would suggest that when I conclude these introductory remarks, we turn to an examination of the proposals of the Government of Ontario. The Premier of Ontario would, I am sure be prepared to make a statement outlining the submission. If this procedure is acceptable, I would propose that, immediately following, the Dominion and then the other provincial representatives should express their views in reference to the Ontario proposals.

While on the question of procedure, might I clarify my understanding of the arrangements in respect to publicity. It was formally agreed by the Co-ordinating Committee that no minutes would be kept of our discussions, and that they would be strictly confidential. We all, I believe, will agree that this should continue to be our practice. I believe, however, that it would be desirable to have the Secretary prepare a press release before the conclusion of each day's meetings which would require to be generally approved and would be released at the close of that day's sittings. I think the precedent has already been established that any prepared statement by a government setting forth its position, such as that I am now giving on behalf of the Dominion Government, may properly be released by that government to the press at any time. In making these suggestions, I am, of course, not seeking to determine the Committee's procedure, but merely to put forward my own view as to a convenient method of procedure.

Conclusion

To return to the problem before us, I wish to emphasize that it is urgent. We must seek an immediate practical alternative to the chaotic situation which will exist unless a new agreement can be reached before the wartime tax agreements expire.

When I had the privilege of opening the meetings of the Dominion-Provincial Conference in August last, and announced the first use of the atomic bomb, I took occasion to speak of the extraordinarily serious problems facing the world. I see no reason to believe that I over-estimated the complexities and dangers of the situation. In North America to-day—and probably in other countries not directly ravaged by war—there tends to be a spirit of false security and of optimism based on favourable immediate business prospects. Looking further into the future, it may well be doubted whether such complacency necessarily rests on particularly strong foundations. How the future will develop depends upon the measures we in Canada and those in other lands adopt and the course we follow. Our problems will not solve themselves.

There is at the present time a keen demand for almost everything that can be produced in Canada—a demand which comes not only from our own people, but is bolstered by the tremendous credits which Canada is extending to other

countries to help them in the reconstruction of their affairs and the feeding of their peoples during this period of shortages. The great question which faces the world to-day is how this present high level of demand can be translated into enduring prosperity.

One must indeed be optimistic to believe that the problem of continued prosperity will be solved without periods during which there are serious threats to national income and employment. Even with the best possible arrangements for operation of our public affairs in this country, we shall still need all the intelligence, efficiency and good will we possess to maintain and improve the living condition of our people. The consequence of failure to effect such arrangements would be very serious indeed.

It is in the light of these prospects that the Dominion government advances its proposals in the belief that they provide the most practical means of meeting the immediate transitional problem. They can be applied on a temporary basis without amending the constitution or changing the fundamental basis of Confederation.

REPLIES BY THE DOMINION GOVERNMENT TO
THE QUESTIONS PUT BY THE PROVINCIAL
PREMIERS, JANUARY 1946, CO-ORDINATING
COMMITTEE MEETING APRIL 25, 1946

April 25, 1946

REPLIES BY DOMINION GOVERNMENT TO THE QUESTIONS PUT
BY THE PROVINCIAL PREMIERS, JANUARY 1946,
COORDINATING COMMITTEE MEETING

When the Dominion presented certain modifications of its proposals to the Coordinating Committee in January a number of questions were asked by several of the premiers as to the possibility of further modifications. The Dominion has considered these questions and is prepared to state its position in respect to them as follows.

Questions 1, 2, 3, 4. (Succession duties)

1. Whether the Dominion would consider vacating the succession duty field in return for appropriate adjustments of the proposed subsidy.
2. Whether the Dominion would consider vacating the succession duty field in return for appropriate adjustments of the proposed subsidy at the option of individual provinces.
3. Whether the Dominion would consider sharing the succession duty field in return for appropriate adjustments of the proposed subsidy.
4. Whether the Dominion would consider sharing the succession duty field in return for appropriate adjustments of the proposed subsidy at the option of individual provinces.

The Dominion attaches great importance to exclusive federal jurisdiction in the succession duty field. For the reasons put forward below this importance is much more than a question of dollars and cents of Dominion revenue from this field, although that is a consideration which cannot be ignored. The chief considerations involved are:

- (a) As long as there are differing provincial rates assessed on different bases, Canadian citizens will be required to pay different amounts of taxation on the same inheritance. For example, a widow of a P.E.I. resident pays seven times the provincial tax that a widow of a B.C. resident does on a \$50,000 inheritance but actually less if the estate is \$500,000. If the assets of an estate are distributed in several provinces the taxpayer may be subject to double or even triple provincial taxation. Reciprocal agreements between provinces to avoid this, of which two now exist, have broken down in the past. The result is that Canadian citizens, who are to all other intents and purposes in the same position, are taxed in a haphazard way at widely differing amounts and serious individual inequities result.
- (b) Provincial revenues from this source vary widely. Average (1936-44) per capita revenues in Ontario, for example, are seven times that in Saskatchewan. There are in addition quite fortuitous fluctuations as between different years in the revenues of individual provinces, as much as four to one. In brief, succession duties levied on a provincial basis produce revenues which vary between provinces in a way not related to the wealth produced in, or the needs of, an individual province, and which fluctuate in an unpredictable manner.
- (c) Because of the widely varying rates and bases of taxation, because of fear of abrupt changes in these rates and bases, and because of the application of different administrative rulings and system, the inter-provincial movement of capital is greatly restricted. In a substantial number of cases the investment and holding of capital may be determined more by succession duty considerations than by other factors, with resultant loss to the optimum development and employment.

- (d) It is impossible in the present situation for the Dominion to negotiate with foreign countries reciprocal agreements that will protect Canadian investments abroad.
- (e) In the absence of unanimous interprovincial agreement on uniformity of rates, uniformity of conditions of liability, uniformity of administrative practices and rulings, and reciprocal tax credits and exemptions, it is impossible to develop an overall succession duty schedule which would either be equitable as between Canadian citizens or efficient as a revenue producer.
- (f) Not only does the possession of personal income tax records make possible the much more efficient collection of succession duties, but administration of succession duties makes possible much more efficient income tax collection.

These considerations make it impossible for the Dominion to consider abandoning the field. The Government feels that in the interests of equity and efficiency of taxation there are few fields in which there is a stronger case for exclusive federal jurisdiction and uniform rates and practices across the country. Nevertheless the Government recognizes the importance which is attached to this particular source of revenue by some provincial governments, and with this in mind, and in the interests of furthering agreement, the Government is accordingly suggesting an alternative to its original proposal in relation to succession duties which will meet the criticisms of the present situation listed above, and which it thinks should be acceptable to any provincial government which wishes to remain in the field.

The modified proposal is that provincial governments would have the option of withdrawing from the succession duty field in return for the base \$15 per capita subsidy as offered in January, or of continuing to levy and collect succession duties with adjustments in the annual subsidy and offsetting credits to the taxpayer as follows. The Dominion would allow as a deduction from the succession duties payable to it any amounts paid to a provincial government up to the amount which would have been paid to a provincial government at the present rates and conditions of liability of that government's Succession Duty Act. The Dominion would then deduct the total of these allowances or tax credits from the annual subsidy paid to that provincial government.

Under this proposal the residents of all provinces would pay an equal succession duty on estates of equal size in similar circumstances. The allowance of a provincial tax as a credit would eliminate existing cases of double taxation. In the case of a province which withdrew from the field the total tax would go to the Dominion and the provincial government would receive the total subsidy. In the case of a province which remained in the field part of the tax would go to the provincial government and would be deducted from the tax payable the Dominion, leaving the taxpayer in that province in the same position as if the province had withdrawn from the field, and leaving the provincial government, which would lose an amount of its subsidy equal to the Dominion tax credits, in the same revenue position. It would be open to a provincial government to increase its succession duty rates but since the Dominion tax credit would be allowed only up to the amount which would be payable at present rates, this would mean increased taxation on its own residents—to the benefit, of course, of the provincial treasury. It would not be possible, however, for anyone in any province to pay less than the amount of the Dominion tax. The revenue position of the Dominion would similarly be unaffected whether a province withdrew from the field or not, since what the Dominion would lose in tax credits for amounts paid to a provincial government would be deducted from the subsidy which would otherwise have been paid—since the Dominion could scarcely be expected to pay for the transfer of a tax which was not transferred.

Question 5:

Whether the preamble of the agreement with Quebec would include a clause stating that in the opinion of that province it has priority in the field of direct taxation.

If this proposal is pressed the Dominion feels it would be necessary also to include in the preamble a clause that in the opinion of the Dominion the matter is clearly covered by the B.N.A. Act, and no such priority exists.

Question 6:

Whether the Dominion would be prepared to retire from gasoline, electricity, amusement, pari-mutuel, stock transfer and telephone and telegraph message fields of taxation.

The Dominion has given the most thorough consideration to the feasibility of withdrawing from some or all of these fields. In view of the financial commitments of the Dominion, including those involved in the present offer to the provinces, and the responsibilities which it must be prepared to accept in the future, the government could not consider withdrawing from these tax fields without full compensation. It has, however, been unable to devise a formula for compensation which would be equitable as between provinces, or which would have any remote likelihood of being acceptable to all provinces.

The Government is prepared to give a commitment for the duration of this agreement that it will not increase the present excise taxes on gasoline, amusements or pari-mutuel bets, provided that in the event of a national emergency the Dominion will be free to take whatever steps are necessary to meet the emergency.

The Government has no present intention of increasing the present excise taxes on telephone and telegraph messages and stock transfers, which were taxes imposed by the Dominion in 1915 and 1920 respectively, but is not prepared to make any formal commitment in regard to these fields.

The Dominion is not prepared to make any commitments in respect to the sales tax on electricity. The Dominion, however, is prepared in the case of companies whose main business is generating for distribution or distributing electrical energy, gas and steam to pay one-half its net corporation income tax collections from them in respect to sales thereof to or for the public. This payment to a provincial government would of course be reduced by an amount equal to any taxes which the government of that province levied on such companies.

In respect to all other corporations the Dominion would require that in the event a provincial government or one of its municipalities took over a tax-paying corporation, a deduction equal to the tax loss to the Dominion would be made from that government's subsidy. It is obvious that in offering the provinces a substantial amount to retire from the corporation income tax field, the Dominion must insist that the corporation income tax field retain its present scope and definition.

Question 7:

Whether the Dominion would undertake not to enter any new fields of direct taxation which the provinces have hitherto occupied.

The Dominion is prepared to repeat the commitment offered in January that it would formally undertake not to enter the real property or motor vehicle licence tax fields, now exclusively occupied by the provinces, which were the two discussed, for the duration of the agreement.

Question 8:

Whether a new agreement would contain the clause now in the Wartime Tax Agreements to the effect that at the termination of the agreement the Dominion would reduce the corporation tax rate 10 per cent.

When the Wartime Tax Agreements were made in 1941 it was clear that corporation taxes were going to be raised. The situation today is different. The Dominion accordingly could not make a commitment in the terms suggested, but it would be prepared to agree to reduce the corporation income tax rate by 10 per cent of such incomes upon the termination of the new agreement if such a reduction were necessary to bring down the rate to the level it would have been reduced to under the Wartime Tax Agreements. Clause 20 (1).

Question 9:

Whether a constitutional amendment would be sought clarifying the right of the provinces to levy a retail sales tax.

The Dominion is prepared, as proposed in August, to seek an amendment to the B.N.A. Act which would permit the constitutional delegation of powers from Dominion to province or vice versa. If such an amendment is made the Dominion is prepared to delegate the power to levy a properly qualified retail sales tax to the provinces for the duration of the agreement.

Question 10:

Whether fiscal need could be taken into consideration in determining the subsidies to be paid each province.

The per capita subsidies and the expansion in direct Dominion expenditures proposed do in fact, if not in formula, recognize "fiscal need" to a very substantial extent. The Dominion is not, however, prepared to go further and commit itself to the payment of additional subsidies on a suggested "fiscal need" basis.

Question 11:

Whether for the purpose of calculating gross national product the immediately preceding year or the current year could be used instead of the average of the three preceding years.

The three-year average was proposed with the intention of providing a more stable base for the subsidy calculations and provincial revenues, and a base for the subsidy calculations and provincial revenues, and a base which it was expected would be more favourable to the provinces during the three-year period of the agreement owing to the inclusion of the high gross national product figures of the later years of the war period. The objection was raised that if one year fell below the 1942 level of gross national product the provinces would receive a smaller aggregate subsidy than if each year were computed on the basis of the preceding year, due to the operation of the guaranteed minimum. The Dominion is prepared to meet this point by proposing that the three-year average be that of the subsidies of the preceding three years individually computed with the amount in each year being in no case less than the guaranteed minimum, or in other words, that for purposes of computing the average the gross national product would never be taken at less than the 1942 figure. This is in substance the suggestion of Mr. Macdonald and Mr. Hart.

Question 12:

Whether the 1941 census population figures could be used instead of the 1942 estimates in calculating the amount of the irreducible minimum subsidy.

In view of the substantial and abnormal shifts in population which took place in many parts of the country between 1941 and 1942, the Dominion is prepared to give provinces the option of the 1941 Census figure of population or the 1942 D.B.S. estimate of population for purposes of computing the guaranteed minimum payment.

Question 13:

Whether wartime shifts in population for industrial purposes could be taken into consideration in computing the irreducible minimum, and persons be credited to the province to which they would return after the war.

In view of the impossibility of distinguishing between permanent and temporary interprovincial movements of population and the fact that any estimated amount credited to one province would have to be deducted from another, this proposal is not practicable. The point is met to some extent, however, by the option proposed in answer to Question 12 above.

Question 14:

Whether further details of the definition and a complete breakdown of the composition of gross national product could be made available.

The D.B.S. has just issued a new edition of the Conference Reference Book on National Accounts, with some additional material which has become available, and copies, including an insert defining gross national product in detail, are now available. The Bureau plans to make this an annual publication. The D.B.S. will be glad to furnish complete details of its computation to any provincial government desiring it.

Question 15:

Whether a clause could be inserted in the agreement prohibiting the right of set-off.

The Dominion cannot consider a clause prohibiting the right of set-off.

Question 16:

Whether the hold-back of income and corporation tax arrears would be paid in accordance with the terms of the Wartime Tax Agreements in the event that a new agreement was concluded.

In the event of new agreements being reached, the Dominion proposes that the hold-back of income and corporation taxes should be paid according to the terms of the Wartime Tax Agreements—that is, within thirty days of the date of termination of those Agreements—but that the first quarterly payment of the new subsidy should be at the end of the first six months of the new agreement instead of at the end of three. This device will assure provinces of adequate and stable revenues throughout the period of the agreement, and will leave them with a quarterly subsidy due at the end of the three-year period if the agreement should not be renewed and provinces had to set up their tax collecting systems again.

Question 17:

Whether a fiscal need grant or other Dominion aid could be given to help provide for needy or unemployed self-employed people.

The Dominion feels that the case of the needy or unemployed self-employed is in substantial measure met by the new floor prices legislation for agricultural and fishery products, the very large assistance being given external trade, the P.F.A.A. and P.F.R.A. measures in the prairies, the proposed expansion of public investment in time of need, and the greatly improved financial position in which the Dominion proposals put the provincial governments and their municipalities.

Question 18:

Whether the Dominion would pay old age pensions as a matter of right to the people aged 65-69, by stages if necessary.

The net increased cost of this proposal is something over \$100 mm. a year. The Dominion cannot at this time go farther than its original old age pension proposals. The scale of its original proposals demonstrates the Government's concern for older people but a balance must be struck between the different claims for assistance if a sound overall social security structure is to be built. In this connection the fact that 69% of the males in Canada in the 65-69 year old age group were classed as gainfully employed at the last census should be noted.

Question 19:

Whether the two-year limitation on payment of unemployment assistance to a man continually unemployed could be modified.

It is the view of the Government that some such practical criterion of employability is essential to facilitate administration and avoid abuses.

Question 20:

Whether the Dominion would assume full fiscal responsibility for all unemployment.

A substantial number of the factors affecting employment are under the jurisdiction and control of provincial and municipal governments, such as provincial and municipal expenditures on public works (which averaged more than twice Dominion expenditures before the war) and provincial legislation dealing with conditions of labour. Also, the responsibility for relief of destitution arising from any cause, and frequently the cause has been unemployment, has been a traditional, provincial and municipal responsibility. In connection with this a social assistance system has been developed by the provinces and the municipalities and adapted to local and provincial conditions. If the Dominion were to accept full fiscal responsibility for all unemployment, a degree of Dominion interference in, and control over provincial and local public investment programs, labour legislation and social assistance schemes would be necessary which would not be acceptable to the Dominion or provincial governments or in harmony with our federal system.

Mémoire
présenté à la Conférence
Fédérale-Provinciale par
l'honorable Maurice L.
Duplessis, C.R., LL.D.,
Premier Ministre de la
province de Québec

Le 25 avril 1946

MÉMOIRE PRÉSENTÉ À LA CONFÉRENCE FÉDÉRALE-PROVINCIALE
PAR L'HONORABLE MAURICE-L. DUPLESSIS, C.R., LL.D.,
PREMIER MINISTRE DE LA PROVINCE
DE QUÉBEC

OTTAWA, le 25 avril 1946.

Le gouvernement fédéral a convoqué les gouvernements provinciaux au mois d'août 1945, dans le but de leur soumettre certaines propositions. Les relations entre le gouvernement fédéral et les gouvernements provinciaux ont donné naissance, ces dernières années, à de multiples problèmes. Les uns intéressent l'ensemble des provinces; les autres, une province en particulier, ou quelques provinces seulement. Les propositions du gouvernement fédéral ne touchent qu'à une partie de ces problèmes. Pour l'instant, la province de Québec entend limiter ses observations à l'examen des propositions fédérales dans leur ensemble. Le gouvernement de la province de Québec s'est donné comme objectif, en entreprenant l'étude de ces propositions, d'assurer la grandeur et la prospérité de tout le pays. Il a donné, croyons-nous, au gouvernement fédéral et au gouvernement des autres provinces, des preuves multiples de sa collaboration loyale et sincère.

Pour apprécier à leur juste valeur le sens et la portée des propositions soumises aux provinces, il importe de les examiner d'abord en regard de l'histoire et de nos lois constitutionnelles.

I

LES PRINCIPES FONDAMENTAUX DU PACTE DE 1867

Dans notre histoire politique, l'importance de l'année 1867 n'échappe à personne. En effet, à la suite de discussions et de conférences, les deux provinces du Haut et du Bas-Canada, la Nouvelle-Ecosse et le Nouveau-Brunswick, donnèrent naissance à la fédération canadienne. Les termes et les conditions de cette nouvelle fédération sont contenus dans un document historique qui s'appelle "*Les Résolutions de Québec*". Les provinces refusèrent alors l'union législative et préférèrent le système fédératif parce que chacune voulait conserver son histoire et ses traditions et désirait protéger ses intérêts économiques et géographiques particuliers.

"*Les Résolutions de Québec*" sont véritablement la résultante d'un accord intervenu entre les quatre provinces qui donnèrent naissance à la Confédération. Les Résolutions de Québec avaient implicitement stipulé que chacune des provinces du Haut et du Bas-Canada redeviendrait une entité distincte et autonome, consacrant une fois de plus la nécessité d'une fédération à l'encontre d'une union législative.

Née de l'accord des volontés de quatre provinces autonomes, et sanctionnée pour donner effet au désir exprimé par ces provisions "de la contracter", la Confédération est donc essentiellement un pacte. Il est puéril de rechercher si ce pacte fédératif réunit toutes les conditions requises pour la validité des contrats du droit civil. Les conventions entre Etats sont d'un autre ordre, puisqu'elles relèvent du droit public.

Sans doute, l'accord fédératif est devenu une loi du Parlement Impérial. Mais, pour reprendre le mot de l'un de nos hommes politiques, le rôle du Parlement de Westminster s'est borné à "authentifier les clauses de l'entente fédérale canadienne".

Aussi, le parrain du projet de loi qui devint l'Acte de l'Amérique Britannique du Nord, le sous-secrétaire d'Etat aux colonies, Adderley, déclarait-il à la Chambre des Communes de Londres:

If again, Federation has in this case specially been a matter of most delicate treaty and compact between the provinces...it is clearly necessary that there should be a third party *ab extra* to give sanction to the treaty made between them.

Et Lord Carnavon, qu'on appelle le législateur de l'Acte de 1867 et qui présenta le projet de loi à la Chambre des Lords, disait:

The Quebec Resolutions, with some slight changes, form the basis of a measure that I have now the honour to submit to Parliament. To those resolutions all the British Provinces in North America were, as I have said, consenting parties, and the measure founded upon them must be accepted as a treaty of union.

La doctrine que la Confédération est de la nature d'un pacte a été constamment proclamée, jusqu'à ces dernières années, par tous nos hommes publics, sans distinction de parti, de race ou de religion.

Elle est, d'ailleurs, sanctionnée par l'autorité judiciaire. En 1932, Lord Sankey, parlant au nom du Conseil Privé, déclarait que l'Acte de l'Amérique Britannique du Nord "embodies a compromise under which the original provinces agreed to federate", et que "the process of interpretation as the years go on ought not to be allowed to dim or to whittle down the provisions of the original contract upon which the federation was founded". (In re: Regulations and Control of Aeronautics, in Canada 1932, A.C. p. 70.)

Et Lord Atkins, en 1937, commentant la distribution des pouvoirs entre le gouvernement central et les provinces, déclarait:

No one can doubt that this distribution is one of the most essential conditions, probably the most essential condition, in the inter-provincial compact to which the British North America Act gives effect.

C'est la raison pour laquelle le gouvernement de la province était tenu à faire devant la commission Rowell-Sirois, en mai 1937, une déclaration de principes destinée à établir nettement sa position. Dans cette déclaration, le gouvernement avait affirmé:

Ce n'est pas du gouvernement central que découlent les pouvoirs et attributions des provinces; c'est, au contraire, de l'accord des volontés des provinces qu'est né le gouvernement central.

Ce caractère conventionnel du pacte fédératif a été trop souvent proclamé, tant par les hommes d'Etat que par les juristes, pour qu'il soit nécessaire d'y insister. Cette doctrine, le gouvernement de cette province déclare la faire sienne.

De là, découle une conséquence primordiale. Participant de la nature des conventions, le pacte fédératif ne peut être ni amendé, ni modifié, sans l'assentiment de toutes les parties; c'est-à-dire de toutes les provinces. Il n'appartient ni à une majorité des provinces, ni encore moins au gouvernement fédéral d'y apporter des changements.

Ceux qui, durant ces dernières années, ont soutenu que la Confédération n'est pas un pacte, sont en opposition avec la tradition politique et la jurisprudence des tribunaux.

Du principe que la constitution fédérale est de nature contractuelle découle une conséquence certaine: c'est que la loi organique de la Confédération ne doit être modifiée que du consentement unanime des provinces qui lui ont donné naissance. Toute modification introduite autrement constitue une atteinte au respect dû aux contrats et ne peut qu'affecter l'harmonie et la stabilité des relations inter-gouvernementales canadiennes.

Ce qui caractérise notre système fédératif, c'est que la répartition des pouvoirs entre le gouvernement central et les gouvernements provinciaux est le résultat de concessions librement consenties par les provinces. Ce serait donc une erreur historique de prétendre que les provinces tiennent leurs attributions et leurs prérogatives du gouvernement fédéral. C'est, au contraire, d'un acte librement consenti par les provinces qu'est né le gouvernement fédéral.

Il est manifeste, que, libres de leurs destinées, les provinces n'ont pas voulu travailler à leur disparition, mais qu'au contraire, elles ont voulu se fortifier. C'est d'ailleurs, ce que déclare en termes formels, Lord Watson:

But, in so far as regards those matters which, by sect. 92, are specially reserved for provincial legislation, the legislature of each province continues to be free from the control of the Dominion, and as supreme as it was before the passing of the Act. (Law Rep., 1892, A.C., pp. 441, 442.)

Et Lord Fitzgerald avait proclamé avant lui:

For provincial purposes in relation to the matters enumerated in sect. 92, it conferred powers not in any sense to be exercised by delegation from or as agents of the Imperial Parliament, but authority as plenary and as ample within the limits prescribed by sect. 92, as the Imperial Parliament in the plenitude of its power possessed and could best owe. Within these limits of subject area, the local legislature is supreme, and has the same authority as the Imperial Parliament or the Parliament of the Dominion. (Hodge vs Queen,—9 A.C. p. 17.)

C'est l'une des prérogatives essentielles des états souverains de pouvoir prélever, par voie de taxation, de la manière qu'ils croient la meilleure, les deniers nécessaires au bon fonctionnement des services publics et la mise en vigueur des lois adoptées par leur parlement, non seulement en vue du présent, mais en vue de l'avenir. Le système fédéral qui comporte une répartition des pouvoirs publics entre les divers états fédérés doit comporter également une répartition corrélative des sources de revenus. A quoi servirait aux provinces de posséder les pouvoirs législatifs les plus étendus, si, par ailleurs, elles étaient empêchées de prélever les deniers que requiert l'exercice de ces pouvoirs? Et le gouvernement central qui s'approprierait toutes les sources de taxation, réduirait, en fait, les provinces à l'impuissance législative. Il est facile de constater que la province qui n'aurait d'autres revenus que les subsides que lui verserait l'état central, cesserait d'être un état souverain, pour devenir un espèce d'organisme gouvernemental inférieur, sous la tutelle de l'autorité d'où elle tirerait ses moyens de subsistance. D'après l'Acte de l'Amérique Britannique du Nord, les provinces ont le pouvoir exclusif de légiférer en des matières excessivement importantes, notamment, dans les matières concernant l'éducation, les institutions municipales, les travaux publics dans la province, les hôpitaux, asiles, institutions et hospices de charité, l'administration de la justice et, généralement, tout ce qui touche à la propriété, ou au droit civil. Toutes ces matières sont d'une importance primordiale et une législation progressive, dans ces divers domaines, entraîne des dépenses considérables et comporte évidemment, pour les provinces, le pouvoir de prélever les deniers nécessaires à ces fins.

Pour faire face à ces dépenses, les provinces se sont, en premier lieu, réservé les ressources naturelles: terres publiques, forêts, mines et minéraux, pouvoirs hydrauliques et hydro-électriques. Elles se sont, en outre, attribué, comme source de revenus, la taxe directe. Parmi les matières qui sont réservées exclusivement aux provinces, en vertu de l'article 92 de l'Acte de l'Amérique Britannique du Nord, se trouve, en effet, "la taxation directe, dans les limites de la province". Il est vrai que, par ailleurs, l'article 91 de la même loi reconnaît au parlement fédéral le droit de prélever des deniers "par tous moyens ou systèmes

de taxation".—Ces deux textes ne sont pas contradictoires; ils indiquent que les provinces auxquelles le texte confère l'exclusivité de la taxe directe doivent avoir un droit de priorité dans ce domaine.

Ce fut là, d'ailleurs, l'interprétation donnée à ces articles par les parties au pacte fédératif. Jusqu'à la première guerre mondiale, c'est-à-dire pendant cinquante ans, le gouvernement fédéral s'était abstenu d'une manière générale, de recourir à la taxe directe, pour le prélèvement des deniers dont il avait besoin. Et, lorsqu'en 1917, fut établi l'impôt fédéral sur le revenu, le ministre des Finances jugea bon de préciser que ce n'était là qu'une mesure provisoire, de la nature d'une mesure de guerre.

D'ailleurs, le ministre des Finances, Sir Thomas White, déclarait à la Chambre des Communes, au cours de la session de 1917:

L'impôt sur le revenu tombe sous la juridiction de la province et se prête parfaitement aux besoins de la province et de la municipalité. (Débats de la Chambre des Communes, Canada, Session de 1917, vol. 11, page 1482.)

De plus, dans la brochure qu'il publiait en 1921, sous le titre "The Story of Canada's War Finance", Sir Thomas White écrivait:

My view was that the income tax should, if possible, be left to provinces for their own purposes and those of municipal governments.

Il est bon de faire remarquer que cette interprétation vaut à la fois pour l'impôt sur le revenu des particuliers et pour l'impôt sur le revenu des corporations. Il a fallu la seconde guerre mondiale pour que le gouvernement fédéral s'arroge le droit de taxer les successions et d'envahir d'autres champs de taxation jusque là réservés aux provinces.

Or, il est admis que la meilleure règle d'interprétation des conventions est celle qui résulte de la conduite des parties.

Tels sont les principes fondamentaux qui, de l'avis du gouvernement de la Province de Québec, ont été consacrés par l'Acte de l'Amérique Britannique du Nord, par la tradition politique et par l'histoire.

Le gouvernement de la province de Québec a donc raison de soutenir que le pacte fédératif a créé une association d'états autonomes et souverains, dans leur sphère respective. Il est de plus fermement convaincu que le maintien de l'autonomie complète des provinces constitue la meilleure protection des minorités, ainsi qu'une condition essentielle de l'unité nationale et du progrès au Canada.

"*Les Résolutions de Québec*" ont été la résultante de longues et laborieuses délibérations au cours desquelles furent débattus les avantages et les désavantages de l'union législative. Elles ont été arrêtées par des hommes d'Etat appartenant à des partis politiques divers, de race et de religion différentes. Et elles ont été adoptées, parce que jugées les mieux appropriées au progrès d'un pays peuplé par des races diverses et où les intérêts économiques diffèrent considérablement d'une région à une autre.

L'accumulation des pouvoirs entre les mains d'un petit groupe d'hommes conduit à l'autocratie, tandis que la répartition des pouvoirs est une des meilleures sauvegardes de la démocratie. La démocratie elle-même n'est-elle pas la manifestation la plus évidente de la décentralisation?

C'est dans les pays totalitaires que se rencontre la centralisation. Mais la terrible expérience de la guerre nous fait voir quel est l'ultime aboutissement du totalitarisme. L'un des principaux objets de la dernière guerre fut de détruire la centralisation. Il serait illogique de l'établir dans ce pays, à l'encontre d'un pacte qui a voulu précisément le contraire.

L'autonomie est désirable, pour toutes les provinces, et particulièrement pour la province de Québec, qui constitue une minorité dans l'Etat canadien. D'ailleurs, chaque province, prise isolément, constitue une minorité dans le tout fédéral. La centralisation est une condition sine qua non du socialisme d'Etat, du bolchevisme, du fascisme et du nazisme et c'est là une raison additionnelle pour que la province de Québec affirme son irréductible volonté de maintenir l'autonomie provinciale.

Les Etats-Unis d'Amérique ne sont-ils pas une Confédération dans laquelle chacun des quarante-huit états est autonome et souverain? Tous reconnaissent le merveilleux développement économique, la puissance et la prospérité des Etats-Unis. Il est donc évident que l'existence de neuf gouvernements provinciaux ne peut constituer un obstacle à la prospérité du pays; loin de là.

Les principes fondamentaux du pacte de 1867 inspirent et inspireront toujours la conduite politique du gouvernement actuel de la province de Québec. La province de Québec respectera toutes les clauses du pacte, elle en assumera loyalement toutes les obligations, mais elle entend défendre jalousement toutes les prérogatives qui lui appartiennent et lui furent reconnues par la constitution canadienne. C'est pourquoi elle se propose de conserver toute son autonomie et toute sa souveraineté dans les matières qui relèvent de la juridiction provinciale, et pour remplir ces obligations présentes et futures, exercer ses droits et prérogatives, il est nécessaire qu'elle conserve son autonomie financière. Elle réclame non seulement le respect de ses droits mais la sauvegarde complète des droits des autres provinces. Elle espère sincèrement que les autres provinces, animées du même esprit, suivront la même ligne de conduite. La province de Québec est fermement convaincue que le système fédératif est le seul système capable de maintenir l'unité au pays. Ce système est à la fois une garantie pour les minorités, et une garantie pour la protection des intérêts économiques des chaque région du pays.

II

LA PORTÉE VÉRITABLE DES PROPOSITIONS FÉDÉRALES

Les propositions soumises par le gouvernement fédéral peuvent se grouper sous trois titres différents:

- 1.—Les propositions financières;
- 2.—Les propositions en matière de sécurité sociale;
- 3.—Les propositions relatives au placement d'Etat.

1.—*Les propositions financières*

Les propositions financières sont les seules au sujet desquelles il n'y a aucune difficulté d'interprétation. Le gouvernement fédéral sollicite des provinces le monopole exclusif des principales taxes directes; il propose de plus l'abandon de ses responsabilités financières actuelles envers les provinces. En retour, le gouvernement fédéral promet aux provinces une subvention annuelle basée sur la production nationale.

Le gouvernement central sollicite des provinces le monopole exclusif dans le domaine de l'impôt sur le revenu des particuliers, de l'impôt sur les successions et de l'impôt sur le revenu et le capital des corporations. Ces trois taxes directes sont les plus importantes de tout le régime fiscal provincial et l'Acte de l'Amérique Britannique du Nord donne aux provinces un droit de priorité incontestable sur ces sources de revenu. Pour en mesurer toute l'importance, il suffit de souligner que la province de Québec par exemple, a fourni au Trésor fédéral durant les dernières années de la guerre, avec les seuls impôts sur le

revenu des particuliers et des corporations, un montant d'environ \$450,000,000 par année, soit un montant cinq fois plus considérable que tous les revenus du gouvernement de la province durant la même période.

Ces sources d'impôt, par leur nature, relèvent de la juridiction provinciale qui en a besoin et qui possède une priorité constitutionnelle à ce sujet.

a) L'impôt sur les successions:

La succession est une institution de droit civil. Ses règles ont normalement pour objet d'assurer la transmission des biens dans la famille et elles s'inspirent des principes juridiques qui régissent l'organisation de la propriété, la distinction des biens, les relations entre conjoints, ainsi que les relations entre ces derniers et leurs descendants. Ces problèmes relèvent du droit civil, et la province de Québec possède un système juridique qui lui est particulier, que nous avons droit de conserver. L'impôt, par une loi fédérale ne peut pas être équitablement établi sur des régimes successoraux différents. Aussi la loi fédérale a-t-elle entrepris d'établir, pour les fins du fisc, l'uniformité successorale, en donnant de la succession une signification applicable à toutes les provinces. Mais les termes de cette définition, étrangers à la langue juridique de notre province, sont inintelligibles pour les juristes de droit civil et le gouvernement de Québec considère que la législation fédérale en matière de droits de succession édictée pour la première fois en 1941, près de 75 ans après la Constitution canadienne, est contraire à l'article 92 de la Constitution. Nous pouvons citer sur le sujet l'opinion du regretté juge P. B. Mignault, dans "*The Canadian Bar Review*", décembre 1941, page 719.

La province de Québec est prête à coopérer avec les autres provinces, comme elle l'a fait avec la province d'Ontario, pour simplifier le prélèvement de cette taxe et éviter la double taxation, lorsque les biens dépendant d'une même succession sont situés dans plusieurs provinces.

b) L'impôt sur le capital et le revenu des corporations:

Au premier rang des corporations soumises à l'impôt se placent celles qui exploitent nos ressources naturelles. Il y a là, en plus de l'argument de droit en vertu duquel ces taxes appartiennent aux provinces, un argument basé sur la stricte justice et l'équité. Ces corporations exploitent nos ressources naturelles: forêts, mines, pêcheries, forces hydrauliques, etc. Les provinces sont propriétaires absolues de leurs ressources naturelles et elles doivent prendre les moyens de les conserver et d'en assurer le développement. Il n'est que juste que le revenu de ces corporations permette aux gouvernements provinciaux de faire face à ces obligations. De plus comme les ressources naturelles appartiennent à toute la communauté provinciale, il n'est que raisonnable que les revenus de ces richesses servent à la communauté provinciale pour améliorer ses services éducatifs et sociaux.

Dans ce domaine, comme dans celui de l'impôt sur les successions, il est possible de simplifier les méthodes de perception et d'en diminuer le coût au moyen d'ententes entre les provinces ou par l'unité de perception.

c) L'impôt sur le revenu des particuliers:

L'impôt sur le revenu des particuliers est d'un ordre différent des deux autres. Il n'en constitue pas moins, de nos jours, une taxe directe importante. Les provinces, sur cette taxe directe comme sur les autres, ont un droit de priorité sur le gouvernement fédéral. D'ailleurs, au point de vue historique, plusieurs provinces ont utilisé cette source de revenu bien avant le gouvernement fédéral. Dans ces conditions, il est étonnant de constater que la loi fédérale de l'impôt sur le revenu contient des dispositions qui méconnaissent le droit incontestable des provinces de lever des impôts. Si nous référons à l'article 16, chapitre 34, des statuts du Canada, 4 Geo. IV, paragraphe O, nous

constatons que le ministre du Revenu national a le droit de désavouer, pour les fins de l'impôt sur le revenu, certains impôts provinciaux et municipaux. En effet, cet amendement de 1940 se lit comme suit:

o) Une taxe, un droit de patente ou autre impôt, ou le montant que représente l'augmentation d'une taxe, d'un droit de patente ou d'un impôt institué, exigé ou accru après le 24^e jour de juin 1940, en vertu de l'autorité conférée par quelque statut ou arrêté en conseil provincial, sauf le montant que le ministre peut admettre, à sa discrétion.

Il est inconcevable qu'en utilisant les sources de revenu qui appartiennent aux provinces, le gouvernement fédéral méconnaisse en même temps le droit des provinces de prélever d'autres impôts. C'est pourquoi la province de Québec demande que cette disposition de la Loi de l'impôt sur le revenu soit abrogée, comme d'ailleurs tous les statuts fédéraux similaires.

Si les propositions fédérales étaient acceptées par les provinces, les trois sources de revenu que nous venons de mentionner deviendraient la propriété exclusive du gouvernement central.

En second lieu, les propositions financières fédérales ont pour but évident de libérer le gouvernement central de l'obligation de payer aux provinces les subsides prévus en vertu de l'Acte de l'Amérique Britannique du Nord et le montant des arriérés d'impôts sur les corporations doivent être payés aux provinces, en vertu de l'entente de 1942. En effet, à la page 54, du texte des *"Propositions du gouvernement du Canada"*, il est écrit:

Le gouvernement fédéral propose donc, en remplacement des subsides statutaires et des versements sous le régime des accords concernant les impôts en temps de guerre, de verser à chaque gouvernement provincial, la somme de \$12 par tête.

Il y a là de la part du gouvernement fédéral, une tendance à ne pas honorer ses obligations, tendance qui est de nature à détruire l'harmonie et la confiance qui doivent exister entre les différentes parties du pays et à montrer clairement le danger évident de remplacer des pouvoirs de taxation provinciaux par des subsides fédéraux.

Le gouvernement de la province de Québec est opposé à la disparition des subsides prévus en vertu de l'Acte de l'Amérique Britannique du Nord. Ce régime n'a pas toujours donné satisfaction aux provinces et n'a certainement pas été appliqué conformément à l'esprit qui en a inspiré l'établissement, mais il y a là, croyons-nous, une question de principe d'une importance capitale. Lors de la Conférence de Québec, les provinces qui ont donné naissance à la Confédération ont consenti à abandonner au gouvernement central, les principales sources de revenu provinciaux, à cette époque, soit les droits de douane et d'accise. Ces subsides rappellent en quelque sorte les grands sacrifices faits par les quatre provinces pionnières, et ces sacrifices, il convient non seulement de ne pas les oublier mais il convient aussi de ne pas les aggraver au profit du bénéficiaire et au dépens du donateur. L'Acte de l'Amérique Britannique du Nord prévoyait, en guise de compensation pour la cession par les quatre provinces pionnières des droits de douane et d'accise, un subside qui devait normalement être basé et sur l'augmentation des revenus fédéraux et sur l'augmentation des besoins des provinces. Ces subsides, d'après les termes mêmes de l'Acte de l'Amérique Britannique du Nord, étaient payés pour permettre aux provinces de maintenir leur "gouvernement et législature". Raisonnablement, les dépenses occasionnées par "le gouvernement civil et la législation pour fins locales" devaient suivre une courbe ascendante, parallèle aux besoins nouveaux de la province.

En 1868, le gouvernement fédéral percevait en droits de douane et d'accise, la somme de \$11,700,000; en 1939, il en percevait près de douze fois plus, soit la somme de \$130,000,000. Durant la même époque, la subvention totale de la province de Québec qui était de \$913,000 en 1868, était de \$2,534,000 en 1939, soit une augmentation de un à quatre seulement alors que les revenus du gouvernement fédéral passaient de un à douze. En 1867, cette subvention représentait 58 p. 100 du budget de cette province, en 1939, elle n'en représentait plus que 3.5 p. 100.

Même si ces subsides n'ont pas donné satisfaction aux provinces, le gouvernement de la province de Québec considère qu'il est extrêmement important de les conserver et que le seul moyen pour le gouvernement fédéral de donner satisfaction aux provinces, ce n'est pas de les faire disparaître, mais de les ajuster aux besoins actuels. En troisième lieu, les propositions financières actuelles tendent à libérer le gouvernement fédéral des obligations qu'il a prises en 1942. En effet, en 1942, les provinces firent avec le gouvernement fédéral une entente d'après laquelle elles cédaient pour la durée de la guerre leur droit de prélever l'impôt sur le revenu des particuliers et l'impôt sur le revenu et le capital des corporations. Le gouvernement fédéral prit alors l'engagement formel de faciliter aux provinces l'usage de ces sources de revenu, à la fin des hostilités. L'entente stipule que:

Le Dominion aura seul le droit de prélever des impôts sur le revenu des individus et des corporations pour l'année de calendrier se terminant le trente et un du mois de décembre le plus rapproché de la date de l'expiration de la présente convention et s'engage à réduire les taux de ces impôts sur le revenu des individus et des corporations pour l'année de calendrier suivante, d'un montant qui permettra à la province de pénétrer de nouveau dans le domaine de l'impôt sur le revenu et de l'impôt sur les corporations, et le Dominion s'engage spécialement à réduire son taux d'impôt sur le revenu des corporations d'au moins dix pour cent de ces revenus.

Cette dernière condition fut insérée à la demande de la Colombie canadienne où la taxe sur les revenus des corporations était de 10 p. 100 en 1942, alors qu'elle était de 5 p. 100 dans la province de Québec. D'ailleurs, le ministre des Finances, l'honorable M. Ilsley, déclarait en 1941:

Nous nous proposons de demander aux provinces, à titre de mesure applicable uniquement pour la durée de la guerre, de renoncer à exploiter ces deux sources d'impôt.

Le ministre des Finances faisait allusion à l'impôt sur le revenu des particuliers et des corporations. Il admettait également en même temps que ces impôts appartenaient de droit aux provinces.

De plus, par une stipulation expresse, le gouvernement fédéral avait été autorisé à déduire des subventions annuelles payables aux provinces, tous les arriérés passés dus, lors de la convention, que prélèveraient les provinces après 1942, sur les taxes qu'elles avaient ainsi cédées et certains autres montants mentionnés dans la convention.

La province a perçu, à date, une somme de \$21,663,106.99 et le gouvernement fédéral, qui a déduit des subventions qu'il devait payer à la province, la somme de \$20,470,923.04, en devient débiteur à l'expiration de la convention. Par arrêté ministériel en date du 21 décembre 1945, la fin des hostilités a été fixée au 2 septembre de la même année pour les fins de la convention, et, conséquemment, la durée de la convention prendra fin le 31 mars 1947. Or, il résulte des propositions actuelles et des déclarations faites par les représentants du gouvernement fédéral au cours de cette Conférence, que si la province de Québec acceptait les propositions fédérales, elle perdrait cette somme très importante de \$20,470,923.04 qui lui est due en vertu de la convention de 1942.

D'ailleurs, le gouvernement de la province estime que cette entente de 1942 était déjà préjudiciable aux intérêts de la province. Elle a eu pour effet de "plafonner" les revenus des gouvernements provinciaux. De plus, elle a eu pour effet de céder au gouvernement fédéral la totalité des pouvoirs de taxation pour ne recevoir en retour qu'une compensation partielle, basée sur l'exercice partiel des droits de la province par le gouvernement de la province. Ainsi au moment de l'entente de 1942, la province de Québec percevait une taxe de 5 p. 100 qui aurait pu être une taxe de 15 p. 100, 20 p. 100, 25 p. 100 et plus. En fait le gouvernement fédéral a taxé les profits des corporations à 100 p. 100. L'exemple n'est probablement pas bon à suivre et lorsque la province de Québec a cédé ses droits de taxation en 1942, elle a cédé à Ottawa 100 p. 100 de ses droits pour recevoir un dédommagement de 5 p. 100 seulement. En vertu de l'arrangement de 1942, la Colombie canadienne parce qu'elle percevait une taxe de 10 p. 100, c'était là d'ailleurs son droit, a reçu une compensation de 10 p. 100, alors que les autres provinces, dont Québec, n'ont reçu qu'une compensation de 5 p. 100 parce que c'était là le montant de leur taxe.

Le gouvernement de la province de Québec regrette en plus de constater que le gouvernement fédéral semble méconnaître l'une des obligations de l'entente de 1942, soit le paiement des frais de perception dus à la province de Québec. En effet, l'article 12 de l'entente se lit comme suit:

12. La province aura droit de retenir, sur les impôts prélevés en vertu des textes législatifs énumérés à l'appendice A et perçus après le 31 mars 1942, un montant équivalent à dix pour cent de ces impôts; et tout montant ainsi retenu sera exclu dans le calcul de la déduction à être faite des paiements dus par le Dominion conformément aux dispositions de l'article 11; cependant les dispositions du présent article ne s'appliqueront pas aux impôts perçus par le Dominion comme agent de la province.

Le gouvernement fédéral promettait de déduire en faveur du gouvernement provincial un montant de 10 p. 100 des arriérés d'impôt sur les corporations, afin de compenser les frais de perception. Le défaut pour le gouvernement fédéral de reconnaître cette obligation se traduirait pour la province, par une perte d'environ \$261,000.00.

Les autorités fédérales n'ont pas manqué cependant de souligner que cette cession des principales sources de revenu n'est qu'une cession temporaire. Par les propositions fédérales, le gouvernement central met au rancart les engagements solennels de payer les subsides provinciaux, en même temps que la convention de 1942. On conviendra que la mise au rancart de ces deux conventions n'est pas susceptible d'inspirer la confiance qui devrait toujours découler des conventions inter-gouvernementales canadiennes et qui est une des bases essentielles de l'unité canadienne bien comprise.

Le gouvernement fédéral mentionne une entente de trois ans et les termes mêmes de ses propositions et de ses projets sont évidemment d'une nature permanente. Nous ne mettons pas en doute la bonne foi des autorités fédérales, mais avec la meilleure volonté au monde, nous ne pouvons voir la logique de ces propositions.

Pour compenser ces sacrifices, ou si l'on veut, en échange de l'abandon par les provinces de leur autonomie fiscale, le gouvernement fédéral propose un système de subventions annuelles basées sur la production nationale.

Pour l'année fiscale 1945-46, la subvention fédérale calculée sur une production nationale de \$10,730,000,000 s'élèverait approximativement, pour la province de Québec, à \$51,850,000. Si l'on acceptait les propositions fédérales, c'est-à-dire si l'on tient compte des obligations que le gouvernement fédéral impose dans ses propositions aux provinces, le déficit budgétaire de Québec pour l'année 1945-46 serait d'environ \$45,400,000. Si la production nationale était réduite

au point où le gouvernement fédéral ne serait tenu de verser que la subvention minimum, soit \$40,000,000, le déficit provincial serait alors porté à \$57,200,000. Ces chiffres ne tiennent pas compte d'une crise de chômage. En d'autres termes, en vertu du régime de subventions proposé par le gouvernement fédéral, les déficits budgétaires provinciaux ne feraient qu'augmenter, tandis que sous un régime d'autonomie fiscale l'accroissement des affaires permettrait à la province d'équilibrer son budget.

De plus, le procédé suggéré par le gouvernement fédéral pour établir cette subvention est très discutable. Les chiffres de base seraient établis sans aucun contrôle de la part des provinces et sur des données arbitraires. Le gouvernement de la province de Québec ne veut pas mettre en doute la bonne foi des fonctionnaires fédéraux qui ont estimé l'évaluation de la production nationale. Il est bien difficile d'établir par des chiffres précis, la production d'un pays comme le Canada. D'ailleurs, la brochure remise aux provinces et intitulée "*National Accounts Income and Expenditure 1938-1944*" indique à la page 4 que la marge d'erreur pour 1944 est d'environ \$265,000,000 dans l'établissement de "Gross National Product". Les chiffres fournis par le gouvernement fédéral pourraient bien difficilement servir de base à un subside, à cause de cette marge d'erreur. Plusieurs des procédés employés sont extrêmement discutables et les données ne peuvent servir, de l'avis du gouvernement de Québec, à établir la base d'une subvention. La seule base acceptable serait le chiffre de la population fixé par chaque recensement décennal, soit dans les circonstances, celui de 1941. La province de Québec croit que les chiffres de base doivent être les moins discutables possible, afin d'éviter les causes de conflit entre les gouvernements. D'ailleurs, les besoins des gouvernements sont en raison directe de la population elle-même.

De plus, l'acceptation des propositions fédérales ne libérerait pas la province de Québec de l'obligation d'assurer le développement de ses ressources naturelles et de son réseau routier, de protéger la santé publique et d'accentuer de plus en plus l'amélioration de son système d'éducation.

En conclusion, les propositions financières du gouvernement fédéral tendent à remplacer le régime de l'autonomie fiscale des provinces dans le domaine de l'impôt par un régime de subventions qui permettrait au gouvernement fédéral d'exercer sur elles une tutelle financière. Un tel régime est inconciliable avec leur souveraineté. De plus, ces propositions ferment aux provinces les plus importants champs de taxation directe, et dans la même mesure les paralysent dans l'exercice des pouvoirs que leur reconnaît la constitution. Supposons par exemple le cas extrême d'un gouvernement central qui prélèverait sur les citoyens d'une province toutes les taxes possibles, les taxes directes et indirectes, de façon à laisser le gouvernement provincial sans ressources pour sa propre administration. N'est-il pas certain que l'autonomie provinciale serait alors un mot vide de sens? Le procédé ne cesse pas d'être un empiétement sur les prérogatives d'une province, s'il est destiné à la priver de ses plus importantes ressources de revenu pour ne lui laisser que les moins importantes et les plus arbitraires.

De plus, le gouvernement de la province de Québec estime qu'il serait dangereux d'établir des précédents qui permettraient au gouvernement fédéral de se libérer d'obligations prises en 1867 et en 1942. Un gouvernement qui ne serait pas soucieux de ses obligations pourrait invoquer ces précédents pour se libérer du paiement de la nouvelle subvention proposée aux provinces.

2.—*Les propositions en matière de sécurité sociale:*

Les propositions fédérales en matière de sécurité sociale sont obscures. Ces propositions apporteraient certainement des modifications très profondes à nos institutions sociales et familiales parce qu'elles préconisent que la législation

sociale et une bonne partie de la législation ouvrière, qui toutes deux relèvent exclusivement de la juridiction provinciale, échapperaient à la juridiction des provinces. En cela, les propositions fédérales touchent à la fois aux domaines de la propriété, du droit civil, de l'éducation, aux relations du capital et du travail qui sont autant de domaines réservés aux provinces en vertu de l'article 92 de l'Acte de l'Amérique Britannique du Nord.

Le gouvernement de la province de Québec s'est occupé et continuera de s'occuper du problème de l'assurance-santé. Il constate toutefois que le projet soumis par les autorités fédérales est, de l'aveu de tous, imparfaitement élaboré, qu'il ne peut être mis à exécution dans sa forme actuelle et qu'il contient en plus des principes incompatibles avec l'autonomie des provinces. Mentionnons par exemple les sujets qui touchent à l'assurance-santé et qui sont du ressort exclusif des provinces: l'établissement, le maintien et la direction des hôpitaux, des asiles et des institutions de charité, l'éducation dans tous ses domaines, y compris les études universitaires, la réglementation des professions libérales, compris les conditions d'admission à l'exercice de la médecine et les relations entre médecins et clients. L'Assurance-santé est intimement liée à toutes ces matières et une législation de cette nature qui relèverait entièrement du gouvernement central, entraînerait fatalement l'ingérence fédérale dans tous ces domaines qui doivent échapper à l'emprise fédérale.

De plus, l'organisation par le gouvernement fédéral d'un système d'assurance-santé ferait très souvent double emploi avec les services provinciaux. La province de Québec en particulier possède déjà un ministère de la santé publique; elle possède des unités sanitaires qui couvrent toute la province; elle construit de nouveaux hôpitaux et agrandit les anciens, et elle aide à l'organisation sur les bases les plus modernes d'une Ecole d'hygiène affiliée à l'Université de Montréal. Pour diriger et administrer ces services d'hygiène, elle possède un personnel averti et expérimenté. Si le gouvernement fédéral mettait en vigueur une loi d'assurance-santé, il lui faudrait entraîner un nouveau personnel qui ferait double emploi avec les fonctionnaires provinciaux, occasionnant de ce chef, une double dépense, personnel qui plus éloigné du centre de ses opérations fournirait nécessairement un travail moins efficace.

Il ne faut pas oublier non plus, que ce soit le gouvernement central ou le gouvernement provincial qui organise les services sociaux, ce seront toujours en définitive les mêmes contribuables qui en supporteront le coût. Le gouvernement fédéral doit augmenter le rendement de ses impôts, s'il veut assurer l'amélioration de ses services administratifs. Et dans le cas de l'assurance-santé, le ministre fédéral de la Santé et du bien-être social a déclaré, lors des pourparlers entre le gouvernement fédéral et les gouvernements provinciaux, que le gouvernement prélèverait, pour payer une partie des dépenses nécessaires, une taxe additionnelle de 5 p. 100 sur le revenu de tous les contribuables sans exception. Cette mesure, outre qu'elle augmenterait le pourcentage du revenu national absorbé par la fiscalité fédérale, diminuera encore les possibilités financières de la province de Québec.

De plus, une législation sociale sera d'autant plus bienfaisante qu'elle s'adaptera davantage aux besoins, aux aspirations culturelles de la population à laquelle elle doit s'appliquer. L'intérêt local est alors à la base de l'intérêt général et les Législatures provinciales, parce qu'en contact plus direct avec les citoyens, sont plus en état que le gouvernement fédéral de déterminer le type de lois qu'il convient d'adopter. Dans ce domaine, le meilleur système est, sans conteste, celui d'une coopération, respectueuse des prérogatives des provinces, entre le gouvernement central et les gouvernements provinciaux. C'est là le système qui fut adopté pour les pensions de vieillesse et pour les pensions aux aveugles, et c'est d'ailleurs le même système que les propositions à l'étude préconisent pour les pensions de vieillesse de 65 à 70 ans.

Le système fédératif offre probablement dans le domaine de la législation sociale des avantages qui ne se rencontrent pas dans les pays qui n'ont qu'un seul gouvernement. En effet, la coexistence de plusieurs gouvernements tous autonomes dans leur sphère respective, parce qu'elle fournit des points de comparaison, est de nature à créer une émulation bienfaisante, et cela pour le plus grand bien des administrés.

Enfin, le gouvernement de la province de Québec trouve singulier le système de contribution exigé par le gouvernement fédéral, par exemple, soit pour les lois sociales, soit dans le domaine des travaux publics. Le gouvernement fédéral d'une part demande aux provinces le monopole exclusif des principales sources de revenu et d'autre part il exige pour la mise en application de plusieurs de ses projets une contribution dispendieuse de la part des provinces. Cette contribution est extrêmement variable et dans le cas des travaux publics, par exemple, le gouvernement fédéral offre de payer 20 p. 100 du coût des travaux, pour en laisser 80 p. 100 aux provinces et aux municipalités. La disparité entre ces contributions respectives devient plus frappante, si l'on considère que le gouvernement fédéral retire actuellement en impôts de 30 à 33 p. 100 du revenu national, tandis que toutes les provinces réunies n'en perçoivent que 5 p. 100.

3.—*Les propositions fédérales au sujet des placements d'Etat:*

Les propositions fédérales accordent une importance très considérable au placement d'Etat. C'est un problème très vaste et les propositions fédérales sont bien imprécises et complexes. Les propositions fédérales à ce sujet semblent se rapporter à des matières qui sont de la juridiction provinciale. Nous nous contentons de souligner que le gouvernement fédéral se propose de se charger entièrement et exclusivement, entre autres, "des recherches générales et fondamentales sur l'exploitation des ressources; les problèmes et les méthodes de conservation et de protection, recherches qui exigent un gros personnel et des techniciens hautement qualifiés."

Voici d'ailleurs une partie de l'énumération contenue dans "*Les Propositions du gouvernement fédéral*" à ce sujet. (page 26).

(ii) ressources minérales et forestières, y compris travaux de recherches sur la préparation du minerai, métallurgie, combustibles, problèmes particuliers à l'extraction des minéraux, sylviculture et utilisation des produits de la forêt; etc....

Le gouvernement de la province de Québec est d'avis, puisque ces sujets relèvent de la juridiction provinciale, que l'acceptation des propositions fédérales équivaldrait, à un double emploi et augmenterait en conséquence, sans raison, les frais de l'administration publique. Jusqu'ici d'ailleurs, le gouvernement de la province de Québec a mis en vigueur nombre de mesures pour assurer la protection de ses ressources naturelles et il est convaincu qu'une meilleure et plus juste répartition des impôts publics faciliterait et augmenterait ses moyens d'actions dans ce domaine.

En outre, les propositions fédérales équivaldraient à une main-mise indirecte et dangereuse par le pouvoir central dans le domaine des ressources naturelles provinciales. Ces ressources naturelles sont essentielles à l'existence même des provinces. C'est un patrimoine qu'elles doivent conserver jalousement dans le but d'assurer et leur développement économique et leur survivance. Le droit de propriété des provinces dans ce domaine est si étendu que les impôts et les dettes du gouvernement fédéral ne peuvent en rien l'affecter. Les ressources naturelles d'une province jouissent en quelque sorte de l'extra-territorialité en faveur de la province et la pénétration fédérale dans ce domaine essentiellement important n'est ni désirée ni désirable, et ouvre la porte à des empiétements qui pourraient devenir ruineux pour la province et ses droits.

Les offres du gouvernement fédéral en matière de chômage ne tiennent pas compte des grandes responsabilités financières du pouvoir central à ce sujet et elles imposent aux provinces un fardeau financier très lourd, au moment même, où en vertu des propositions fédérales, les provinces seraient privées de leurs principales sources de revenu.

CONCLUSION

Les autorités fédérales déclarent que l'acceptation de leurs propositions aurait pour effet de sauvegarder l'autonomie des provinces, d'appliquer une politique sociale progressive, de répondre aux besoins du pays en même temps qu'aux besoins des provinces, et cela, tout en diminuant les impôts publics.

Il est bien difficile de comprendre comment il serait possible d'augmenter les revenus des provinces, d'augmenter les revenus du gouvernement d'Ottawa et de diminuer les taxes en même temps. Cette théorie est évidemment illogique.

L'autonomie des provinces ne peut pas être sauvegardée en substituant un subside fédéral à l'indépendance financière des provinces.

La souveraineté et l'autonomie des provinces sont à l'antipode de toute tutelle fédérale. La province de Québec, entre autres, a atteint sa majorité il y a longtemps. Il est facile de convenir que la tutelle ou la curatelle est incompatible avec les droits, prérogatives et libertés qui sont l'apanage de la province et qui lui sont reconnus par la constitution canadienne.

Les droits exclusifs des provinces en matières de législation sociale, d'éducation, de droit civil, etc., etc., doivent être intégralement conservés et sauvegardés, si la Confédération doit survivre. Les propositions fédérales telles que formulées et expliquées par les autorités fédérales portent atteinte sérieusement et directement aux droits inaliénables de toutes les provinces.

Les propositions fédérales tendent à la centralisation, contraire à l'esprit du pacte fédératif; elles tendent à établir et à accroître une bureaucratie qui ne convient et ne pourra jamais convenir ni à une démocratie, ni à un pays régi par les institutions parlementaires.

Un des hommes d'état distingués des Etats-Unis, M. Hatton W. Sumners, du Texas, qui fut président de l'important comité judiciaire de la chambre des représentants à Washington déclarait, il y a quelques mois, ce qui suit:

...By making the units of state government financially dependent on the federal government, that government is acquiring the power to control the units of state government. When this is fully consummated, the sovereignty of the state governments will be liquidated...

...In weakening the states we weaken the whole fabric of free government. The inescapable price of free government is that we exercise it. The most destructive force in the world is no use. If we do not use our powers of self-government in the states we will awake one day to find that self-government has passed irrevocably out of our hands. Government is exercised best in the local community. There the problems are perceived with greater clarity because they are close to the people and on a scale within their grasp. The self-reliance of the individual, town and state is being destroyed as they are being relieved of the necessity of governing themselves. When people stop thinking for themselves there is always someone willing to step forward and do their thinking for them...

...Nature has not endowed any group of human beings with the sweep and grasp of intelligence necessary to handle the multitude of federal and local problems dumped upon Washington...

...The states must resume the status of responsible sovereign agencies of general government or democracy cannot live in America.

Les principes énoncés dans cette déclaration trouvent parfaitement leur application dans le système confédératif canadien.

La province de Québec est en faveur d'une saine législation sociale, domaine exclusivement réservé aux provinces.

La véritable sécurité sociale doit offrir des éléments de durée et de stabilité que seuls peuvent lui procurer le respect de la constitution et le respect des droits de chacun des contribuables en particulier. La constitution canadienne est le résultat d'une coopération bien comprise entre les provinces; cette coopération doit se continuer pour le plus grand bien du pays. Les propositions du gouvernement fédéral semblent contraires à cet esprit de coopération.

De l'avis du gouvernement de la province de Québec, le pays a besoin de trois choses: la clarification et la délimitation précise des pouvoirs de taxation du gouvernement fédéral et des provinces, suivant l'esprit et la lettre de la constitution canadienne, c'est-à-dire en tenant compte du passé, du présent et du futur.

Deuxièmement, la simplification de taxation publique pour en diminuer le coût et en faciliter la perception.

Troisièmement, la collaboration de tous les pouvoirs pour en arriver à la modération dans le domaine de l'impôt et pour diminuer le fardeau imposé à un éternel oublié: le payeur de taxes.

Ces trois qualités fondamentales peuvent se réaliser facilement en constituant un comité permanent composé des représentants attitrés des dix gouvernements du pays, étudiant et travaillant en véritables frères de la grande famille canadienne respectueuse et soucieuse des droits, prérogatives et libertés de chacun de ses membres.

Pendant le temps nécessaire à l'étude et au règlement de ces problèmes canadiens, une convention temporaire, précise, claire et catégorique dont la durée serait déterminée en tenant compte et des besoins du fédéral et des besoins des provinces pourrait être conclue comme mesure transitoire mais fondée sur les bases mêmes de la constitution canadienne.

Bref, il serait possible de louer, et nous insistons sur l'expression louer, moyennant une juste compensation, non seulement matérielle mais même constitutionnelle, certains pouvoirs de taxation actuels des provinces, qui pourraient être raisonnablement loués sans diminuer en rien la marche ascendante de la province, son progrès, sa prospérité.

Nous vous réitérons donc le sincère désir de la province de Québec de collaborer et de coopérer à la prospérité et à la grandeur du pays. Cet idéal ne pourra certainement pas se réaliser sans que la grandeur et la prospérité des provinces autonomes soient également garanties et sauvegardées.

April 25, 1946.

MEMORANDUM SUBMITTED TO THE DOMINION-PROVINCIAL
CONFERENCE BY THE HONOURABLE MAURICE L. DUPLESSIS,
K.C., LL.D., PRIME MINISTER OF THE PROVINCE OF
QUEBEC

(Translation)

The Federal Government called together the Provincial Governments in the month of August, 1945, for the purpose of submitting certain proposals to them. Relations between the Federal Government and Provincial Governments have, in the course of time, given rise to manifold problems. Some of these involve all the Provinces; some others, one Province alone or a few Provinces only. The proposals submitted by the Federal Government touch only some of such problems. At the present time, the Province of Quebec intends to limit its observations to the examination of the federal proposals considered as a whole. In undertaking such a survey, the Province of Quebec has one object in view and that is to ensure the greatness and the prosperity of our country. This Government, we believe, has given to the Federal Government and to the Governments of all other Provinces, ample proofs of its loyal and sincere collaboration.

In order to appreciate fully the purport and the extent of the proposals submitted to the Provinces, it is essential that they should be primarily examined in the light of history and of our constitutional laws.

I

BASIC PRINCIPLES OF THE 1867 PACT

In our political history, the importance of the year 1867 cannot be overlooked by anyone. Indeed, as a result of discussions and conferences, the two Provinces of Upper and Lower Canada, Nova Scotia and New Brunswick, gave birth to the Canadian Federation. The terms and conditions of this new federation are contained in the now historical document known as "The Quebec Resolutions". On that occasion, the Provinces rejected the idea of a legislative union and decided in favour of a federal system because each wanted to preserve its own history and traditions and was concerned with the protection of its own economic and geographical interests.

"The Quebec Resolutions" are undoubtedly the result of an agreement entered into between the four Provinces which produced Confederation itself. These Resolutions implicitly laid down that each of the Provinces of Upper and Lower Canada would recover its own separate and autonomous entity, thereby establishing once again the principle of a federation as against a legislative union.

The product of an unanimous agreement concluded between the four autonomous Provinces and sanctioned with the avowed intention of "making it a contract" expressly contained in its provisions, Confederation possesses therefore the essential ear-marks of a compact. It would be futile to examine whether this federative compact possesses all the requirements necessary for the validity of a contract, under our civil law. Agreements between states are on a different plane. They belong to public and not to private law.

One thing is certain. The federative agreement became an Act of the Imperial Parliament. To quote one of our political men, the part played by Parliament at Westminster consisted solely in "a ratification of the clauses embodied in the Canadian Federal Agreement".

Thus, the sponsor of the draft Bill which was to become the British North America Act, the Under-Secretary of State for the Colonies, Mr. Adderley, could declare on the floor of the House of Commons, in London:

If again, Federation has in this case specially been a matter of most delicate treaty and compact between the Provinces...it is clearly necessary that there should be a third party *ab extra* to give sanction to the treaty made between them.

And Lord Carnarvon, the legislator known as being responsible for the draft of the Act of 1867, who submitted the Bill in the House of Lords, could say:

The Quebec Resolutions, with some slight changes, form the basis of a measure that I have now the honour to submit to parliament. To those resolutions all the British Provinces in North America were, as I have said, consenting parties, and the measure founded upon them must be accepted as a treaty of union.

The doctrine purporting to maintain that Confederation is of the nature of a compact has been advocated, at all times, until quite recently, by all our public men, without distinction of party, race or religion.

Furthermore, it has received the sanction of judicial authorities. In 1932, Lord Sankey, speaking on behalf of the Privy Council, stated that the British North America Act "embodies a compromise under which the original provinces agreed to federate" and that "the process of interpretation as the years go on ought not to be allowed to dim or whittle down the provisions of the original contract upon which the federation was founded". (In re: Regulations and Control of Aeronautics, in Canada 1932, A.C. p. 70).

Lord Atkins, in 1937, discussing the distribution of powers between the central government and the Provinces, declared as follows:

No one can doubt that this distribution is one of the most essential conditions, probably the most essential condition, in the inter-provincial compact to which the British North America Act gives effect.

Hence the reason why, in May 1937, before the Rowell-Sirois Commission, the Government of this Province deemed it advisable to make a declaration of principles designed to establish clearly its position. In this declaration, the Government asserted the following:

The powers and prerogatives of the Provinces do not flow from the Central Government; quite to the contrary, the Central Government itself owes its very existence to the willing consent of the Provinces.

The contractual character of our federative pact has been so often acknowledged by statesmen and jurists, that it seems unnecessary to insist on it. The Government of this Province declares that it firmly adheres to this doctrine. Hence an all important consequence. Being of the nature of a treaty, the Federal Compact cannot be amended, nor modified except with the consent of all parties thereto; that is to say of all the Provinces. Neither the Federal Government, nor a majority of the Provinces, can change or alter its provisions.

Those who, in recent years, have argued that Confederation is not of a pact, are in opposition to political tradition and to court jurisprudence.

From the principle that our Federal Constitution is in the nature of a contract may be drawn the following logical consequence: the basic act of Confederation cannot be amended except with the unanimous consent of the Provinces which were responsible for its enactment. Any amendment otherwise brought about would constitute an encroachment upon the sacred rights of contracts and could not but endanger the harmony and stability of Canadian inter-governmental relations.

The very character of our federative system requires that the allocation of powers between the Central Government and the Provincial Governments be the outcome of concessions freely agreed upon by the Provinces. It would therefore be contrary to the dictum of history to argue that the Provinces derive their powers and prerogatives from the Federal Government. Quite the contrary, the Federal Government could not have existed without an Act voluntarily approved by the Provinces.

Obviously, the Provinces, masters of their own destinies, could not have intended to work toward their own destruction but rather with a view of becoming stronger. Lord Watson did not fail to recognize this when he said:

But, in so far as regards those matters which, by sect. 92, are specially reserved for provincial legislation, the legislature of each Province continues to be free from the control of the Dominion, and as supreme as it was before the passing of the Act. (Law Rep., 1892, A.C. pp. 441, 442).

Before him, Lord Fitzgerald had stated:

For provincial purposes in relation to the matters enumerated in sect. 92, it conferred powers not in any sense to be exercised by delegation from or as agents of the Imperial Parliament, but authority as plenary and as ample within the limits prescribed by sect. 92, as the Imperial Parliament in the plenitude of its power possessed and could best owe. Within these limits of subject area, the local legislature is supreme, and has the same authority as the Imperial Parliament or the Parliament of the Dominion. (Hodge vs Queen, 9 A.C. p. 117).

One of the essential prerogatives of sovereign states pertains to the right of levying, by taxation, in the manner which they think best, moneys required for effective public administration and application of laws enacted by Parliament, not only for present needs but also with a view to the future. A federal system involving an allocation of public powers among different federated states must equally provide for a correlative allocation as to revenue sources. How could the possession of the widest legislative powers profit the Provinces if, on the other hand, they were restrained from levying the funds required to exercise such powers? And any central government reserving to itself all revenue sources would, in fact, reduce the Provinces to legislative impotency. It would be an easy matter to show that a Province deprived of all revenues except subsidies paid by the central state, would cease to be a sovereign state and become a sort of inferior governmental organization under the tutelage of the authority upon which it depends. Under the British North America Act, the Provinces have the exclusive power to legislate on exceedingly important matters, namely, in matters concerning education, municipal institutions, public works within the Province, hospitals, asylums, charities, eleemosynary institutions, administration of justice, and, generally, all matters concerning property and civil law in the Province. All these matters are of primordial importance and progressive legislation, covering such different fields, entails considerable expenses and obviously implies, for the Provinces, the right to levy the moneys required for such purposes.

In order to meet such expenses, the Provinces, in the first place reserved to themselves all natural resources: public lands, forests, mines and minerals, hydraulic and hydroelectric powers. Furthermore, they retained, as a source of revenue, direct taxation. In connection with this, it may be noted that, amongst the matters exclusively reserved to the Provinces, section 92 of the British North America Act mentions "direct taxation within the Province". On the other hand, section 91 of the said Act also vests in the Federal Parliament the right of raising money "by any Mode or System of taxation". These two enact-

ments are not contradictory; they mean that the Provinces, in which according to the letter of the law has been vested the exclusive right of direct taxation, should have a priority right in such a field.

In any event, such was the interpretation given to these sections by the parties to the federative compact. Until the first world war, that is to say, during fifty years, the Federal Government had generally refrained from using direct taxation for the purpose of raising the money required for its needs. When, in 1917, a federal income tax was established, the Minister of Finance deemed it advisable to make it clear that this would merely be a temporary measure, in the nature of a war measure. During the Session of 1917, Sir Thomas White, then Minister of Finance, also declared in the House of Commons:

The income tax is peculiarly within the jurisdiction of the Province and is a suitable tax for the purpose of the Province and the municipalities. (House of Commons Debates, Session of 1917, vol II, page 1441.)

Moreover, in the pamphlet published by him in 1921, entitled "The Story of Canada's War Finance", Sir Thomas White wrote as follows:

My view was that the income tax should, if possible, be left to Provinces for their own purpose and those of municipal governments.

It may be in order to point out that such an interpretation applies to both the personal income tax and the corporation income tax. It was with the advent of the second world war that the Federal Government assumed the right to tax estates and invaded other fields of taxation until then reserved to the Provinces.

It is generally conceded that the best rule of interpretation applicable to agreements is the one dictated by the conduct of the parties thereto.

Such are the basic principles which, in the opinion of the Government of the Province of Quebec, have been enshrined in the British North America Act, political tradition and history.

The Government of the Province of Quebec is therefore entitled to hold that the federative compact has created an association of states, autonomous and sovereign in their own field of action. Furthermore, this government is satisfied that complete autonomy of the Provinces constitutes the best safeguard for the protection of minorities as well as an essential condition of national unity and progress in Canada.

The "Quebec Resolutions" were the result of long and careful discussions during which the advantages and disadvantages of legislative union were fully appraised. They were framed by statesmen belonging to different political parties, different races and different religions. And they were adopted for the reason that they had been deemed to be the best suited to the progress of a country populated by different races and wherein economic interests differ substantially from one region to another.

The accumulation of powers in the hands of a small group of men leads to autocracy; while the distribution of powers is one of the best safeguards of democracy. Is not democracy the most obvious example of decentralization?

Centralization is usually found in totalitarian states. But the terrible experience of the war shows plainly what can be the final outcome of totalitarianism. One of the prime objects of the last war was the destruction of centralization. It could only be implanted in this country through a lack of logic and in defiance of a pact designed to produce exactly the reverse.

Autonomy is desirable for all Provinces and particularly for the Province of Quebec which forms a minority within the Canadian State. Moreover, each Province, taken as a sole entity, becomes a minority within the federal state. Centralization constitutes a *sine qua non* condition of state socialism,

of bolshevism, of fascism and of nazism and on such grounds, besides others, it behooves the Province of Quebec to assert its irrevocable determination to stand by provincial autonomy.

What about the United States of America? Are they not composed of a confederation wherein each one of the forty-eight states remains autonomous and sovereign? The marvelous economic development, the power and the prosperity of the United States are recognized the world over. It therefore becomes obvious that the existence of nine provincial governments could not possibly be prejudicial to the prosperity of our country; far from it.

The basic principles of the 1867 compact have inspired and will always inspire the policies of the present Government of the Province of Quebec. The Province of Quebec shall abide by every clause of the compact, loyally assume all its obligations but it is also determined to uphold jealously all the prerogatives it possesses and which have been recognized as its own by the Canadian constitution. Hence the reason why it proposes to preserve its entire autonomy and its absolute sovereignty in matters within provincial jurisdiction; and, for the purpose of fulfilling its present and future obligations, of exercising its rights and prerogatives, it becomes also necessary that its financial autonomy be preserved. It claims not only respect for its own rights but absolute sovereignty for the rights of other Provinces as well. A fond desire of this Province is that the other Provinces, moved by a similar spirit, may follow the same line of conduct. The Province of Quebec stands firmly convinced that the federative system is the only system capable of maintaining unity in this country. This system is both a guarantee for minorities and a guarantee for the protection of the particular economic interests of each area of this country.

II

The Real Scope of the Federal Proposals

The proposals submitted by the Federal Government may be divided under three different headings:

- 1.—Financial proposals;
- 2.—Social security proposals;
- 3.—Proposals respecting public investment.

1.—Financial Proposals.

The financial proposals appear to be the only ones free from any difficulty of interpretation. The Federal Government seeks to obtain from the Provinces an exclusive monopoly in the most important fields of direct taxation; it proposes also to be relieved of its present financial obligations towards the Provinces. In return, the Federal Government promises to remit to the Provinces an annual subvention based on national production. *2000.000.000*

The Central Government asks that the Provinces should grant it an exclusive monopoly in the fields of personal income taxes, of succession duties and of taxes on the income and capital of corporations. Those three direct taxes represent the most important factors of the whole provincial fiscal system and the British North America Act vests in the Provinces an incontestable right of priority respecting these sources of revenue. By way of estimating their extent, it suffices to lay stress on the fact that the Province of Quebec, for example, has provided to the Federal Treasury, during the last years of the war, merely out of income taxes levied on individuals and corporations, an approximate amount of \$450,000,000 per annum, that is to say an amount five times larger than all the revenues of the Province for the same period put together.

These sources of revenue, by their very nature, fall within the jurisdiction of the Province, are required by the Province and are subject to a constitutional right of priority which belongs to the Province.

(a) *Succession Duties*

Estates come within the scope of civil law. The regulations in connection therewith are normally designed to ensure the transmission of the estate within the family and they are based on legal principles governing the organization of property, the identification of assets, the relations between husband and wife, as well as the relations between the latter and their issue. Such problems belong to civil law and the Province of Quebec is endowed with a judicial system of its own, which it is our right to maintain. No Act of the Dominion could equitably establish a tax based on different systems of death duties. Accordingly, the Federal Act endeavours to work out, for revenue purposes, a sort of successional uniformity when it seeks to foist on the Provinces a definition of inheritance applicable to all. But the terms of such a definition, foreign to the legal terminology of our Province, make no sense for civil law jurists and it ensues that the Quebec Government holds, as contrary to section 92 of the Constitution, the Federal Act respecting succession duties, first enacted in 1941, almost 75 years after the Constitution of Canada. In this respect we could quote the opinion expressed by the late lamented Judge P. B. Mignault; it may be found in the December, 1941, issue of the Canadian Bar Review, at page 719.

The Province of Quebec stands ready to co-operate with the other Provinces, as it has done with the Province of Ontario, to bring about a simplification in the levying of such duties and to avoid double taxation, where the assets of an estate are situated in several provinces.

(b) *Taxes applicable to the capital and the income of corporations.*

Corporations engaged in the development of our natural resources take the very first rank amongst corporations subject to this tax. This situation, added to the legal implication consequent upon the right of the Provinces to such taxes, give rise to an argument based upon strict justice and equity. These corporations exploit our natural resources: forests, mines, fisheries, hydraulic powers, etc. The Provinces are absolute owners of their own natural resources and it is their duty to provide means for their preservation and ensuring their development. It should then only be fair that the revenue derived from these corporations should go to the Provincial Governments to enable them to meet their own responsibilities. Furthermore, since natural resources belong to the provincial community as a whole, it logically follows that the revenue procured by such a wealth should be used by this Provincial community to improve its educational and social services.

In this field as in the field of succession duties, it is possible to simplify methods of collection and to reduce the cost thereof by means of agreements between Provinces or by single collection.

(c) *Taxes respecting the income of persons.*

Personal income taxes differ from the two other classes of taxes. Nevertheless, at the present time, they represent an important direct tax. With respect to such direct taxes as to all others, the Provinces enjoy a right of priority over the Federal Government. As a matter of record, from a historical point of view, several Provinces have taken advantage of this source of revenue long before the Federal Government. Under those circumstances, it becomes amazing to realize that the Federal Income Tax Act should contain certain provisions which exhibit a complete disregard for the undeniable right of the Provinces pertaining to the levy of taxes. A reference to section 16 of chapter 34, Revised

Statutes of Canada, 4 Geo. IV, paragraph (o), will show that the Minister of National Revenue, is empowered to disallow, for income tax purposes, certain provincial and municipal taxes. The 1940 amendment reads as follows:

(o) Any tax, licence fee or other levy, or the amount represented by the increase in any tax, licence fee or levy imposed, exacted or increased after the twenty-fourth day of June, 1940, by virtue of the authority contained in any provincial statute or order in council, save such amount as the Minister in his discretion may allow.

It is inconceivable that by using sources of revenue which belong to the Provinces, the Federal Government should, at the same time, disregard the right of Provinces to levy other taxes. Hence the reason why the Province of Quebec demands the repeal of this provision of the Income Tax Act together with all similar Federal Statutes.

Should federal proposals be accepted by the Provinces, the three sources of revenue hereinabove mentioned would become the exclusive property of the Central Government.

Secondly, the obvious aims of the federal financial proposals indicate a movement to free the Central Government from the necessity of paying to the Provinces subsidies provided under the British North America Act. Moreover, the amount of corporation tax arrears must be paid to the Provinces pursuant to the 1942 Agreement. As a matter of fact, at page 49 of the "Proposals of the Government of Canada", the following may be read:

The Dominion Government therefore proposes, in lieu of present statutory subsidies and payments under the wartime tax agreements, and conditional upon provincial acceptance of its tax proposals, to pay each provincial government the sum of \$12 per capita...

This denotes on the part of the Dominion Government a tendency to ignore its obligations, a tendency which is such as to destroy the harmony and confidence that ought to exist among the different parts of the country, and it points out the obvious danger of replacing provincial powers of taxation by federal grants.

The Government of the Province of Quebec is opposed to the doing away with grants provided for under the British North America Act. This system has not always given satisfaction to the Provinces and has certainly not been applied in accordance with the spirit which inspired its adoption, but it involves, we believe, a matter of principle of paramount importance. At the Quebec Conference, the Provinces which gave birth to Confederation agreed to abandon to the Central Government the then main sources of provincial revenue, that is, customs and excise duties. These grants bring back to mind, as it were, the great sacrifices accepted by the four original Provinces, and it would be fitting not only that we should not be unmindful of these sacrifices but that they should not be aggravated to the benefit of the donee and at the expense of the donors. The British North America Act, as a compensation for the abandonment, by the four original Provinces, of the customs and excise duties, provided for a grant which was to be based, normally, both on the increase of federal revenues and the increase in the provincial needs. These grants, in the very words of the British North America Act, were paid for the purpose of enabling the provinces to maintain their "Governments and Legislatures". Reasonably, the expenses occasioned by "civil government and legislation for local purposes" were to follow an ascending trend that would parallel new needs of the Province.

In 1868, the Dominion Government collected, in customs and excise duties, the sum of \$11,700,000; in 1939, it was collecting nearly twelve times as much, that is the sum of \$130,000,000. In the same period, the total grants of the province of Quebec, which in 1868 amounted to \$913,000, in 1939 had gone up to \$2,534,000, or an increase in the ratio of four to one only, whereas the

Dominion Government's revenues had increased in the ratio of twelve to one. In 1867, this grant represented 59 per cent of the budget of the Province, whereas in 1939, it only represented 3·5 per cent thereof.

Even although these grants have not proved satisfactory to the Provinces, the Government of the Province of Quebec is of the opinion that their retention is extremely important and that the only way for the Dominion Government to give satisfaction to the Provinces is not to suppress them but to adjust them to the present needs.

Thirdly, the present financial proposals tend to free the Dominion Government from the obligations assumed by it in 1942. Indeed, in 1942, the Provinces entered into an agreement with the Dominion Government whereby they ceded for the duration of the war their right to the taxation of personal income and corporation income and capital. On this occasion, the Dominion Government formally undertook to facilitate to the Province the use of these sources of revenue, at the end of hostilities. The agreement provides:

The Dominion shall have the sole right to levy taxes on personal and corporation incomes of the calendar year ending on the thirty-first day of December nearest to the date of the termination of this agreement, and with respect to personal and corporation incomes in the following calendar year undertakes to reduce its rates of taxes by such an amount as will enable the Province again to use the income tax and corporation tax fields, and in particular the Dominion undertakes to reduce its rate of tax on corporation incomes by at least ten per cent of such incomes.

This last condition was inserted at the request of British Columbia, where the tax on corporation incomes was 10 per cent in 1942, whereas it was 5 per cent in the Province of Quebec. Moreover, the Honourable Mr. Ilsley, Minister of Finance, stated in 1941:

It is proposed, therefore, as a temporary expedient for the duration of the war only, to ask the provinces to vacate these two fields.

The Minister of Finance was referring to the taxation of incomes of individuals and corporations. He also admitted at that time that these taxes belonged as of right to the provinces.

Furthermore, under an express stipulation, the Dominion Government had been authorized to deduct from the annual grants payable to the provinces, all the arrears, overdue at the date of the agreement, and which would be levied by the provinces after 1942, on the taxes they had thus ceded together with certain other amounts mentioned in the agreement.

To date, the Province has collected a sum of \$21,663,106.99 and the Dominion Government, having deducted the sum of \$20,470,923.04 from the grants it had to pay to the Province, becomes indebted in respect thereto, at the expiration of the agreement. By order in council of the 21st December 1945, the end of hostilities has been fixed at the 2nd of September of the same year, for the purposes of the agreement, and, therefore, the agreement will expire on the 31st March 1947. It follows therefore from the present proposals and the statements made by the representatives of the Dominion Government during the Conference, that were the Province of Quebec to accept the Dominion proposals, it would lose this very substantial sum of \$20,470,923.04 owing to it under the 1942 agreement.

Indeed, the Government of the Province of Quebec believes that this agreement of 1942 was already prejudicial to the Province. It has had the effect of placing a ceiling on the revenues of the provincial governments. Moreover, it has had the effect of ceding to the Dominion Government, in their entirety, the powers of taxation, the Province receiving in return a partial compensation only, based on the partial exercise of its powers by the Provincial Government. Thus, at the

time of the agreement, in 1942, the Province of Quebec was collecting a 5 per cent tax which might have been a tax of 15 per cent, 20 per cent, 25 per cent or more.

As a matter of fact, the Federal Government imposed a 100% tax on corporation profits. The example might not be a proper one to follow and, when in 1942, the Province of Quebec ceded its taxation rights, it ceded to Ottawa 100 per cent of these rights, receiving in return a compensation of 5 per cent only. Under the 1942 agreement, British Columbia, because it levied a 10 per cent tax, which indeed it had a right to do, has received a 10 per cent compensation, whilst other provinces, including Quebec, have received a compensation of 5 per cent only, since that was the amount of their tax.

The Government of the Province of Quebec, moreover, notes with regret that the Federal Government seems to disregard one of the obligations under the 1942 agreement, that is the payment of collection costs due the Province. Indeed, paragraph 12 of the agreement reads as follows:

12. The Province shall be entitled to retain out of taxes imposed by the enactments enumerated in Appendix A and collected after March 31, 1942, an amount equivalent to 10 per cent thereof and any amount so retained by the Province shall be excluded when computing the amount to be deducted from the payments by the Dominion under the provisions of section 11; provided, however, that the provisions of this section shall not apply to taxes collected by the Dominion as agent for the province.

The Federal Government agreed to deduct, in favour of the Provincial Government, an amount of 10 per cent of the arrears of taxes on corporations, as a compensation for collection costs. Default on the part of the Federal Government to acknowledge this obligation would result in a loss to the Province of about \$261,000.00.

Federal authorities have not failed, however, to point out that this surrender of the principal sources of revenue is only temporary. By the federal proposals, the Central Government brushes aside the solemn promises to pay the provincial subsidies, as well as the 1942 agreement. It will be admitted that the brushing aside of these two undertakings is not such as to inspire the confidence which should always spring from Canadian intergovernmental agreements and which is one of the essential bases of Canadian unity as it should be understood.

The Dominion Government mentions a three year agreement, but the conditions of its proposals and plans are evidently of a permanent nature. We do not question the good faith of the federal authorities, but, with all the willingness possible, we are unable to see the logic of these proposals.

To compensate for these sacrifices, or again, in return for the abandonment by the Provinces of their fiscal autonomy, the Dominion Government proposes a system of annual grants based on the national production.

For the fiscal year 1945-46, the federal grant, in respect of a national production of \$10,730,000,000, would amount for the Province of Quebec, to about \$51,850,000. If the federal proposals were accepted, that is if the obligations imposed by the Federal Government in its proposals to the Provinces were taken into account, the budgetary deficit of Quebec for the years 1945-46 would amount to approximately \$45,400,000. If the national production was reduced to the point where the Federal Government would have to pay the minimum grant only, that is \$40,000,000, the provincial deficit would then amount to \$57,200,000. These figures do not take into account what would happen in the event of an unemployment crisis. In other words, under the grant system proposed by the Federal Government, provincial fiscal deficits would go on increasing, whereas under a system of fiscal autonomy the increase in business would allow the province to balance its budget.

Moreover, the method proposed by the Federal Government to determine this grant is very questionable. The basic figures would be worked out without any control on the part of the Provinces and according to arbitrary figures. The Government of the Province of Quebec does not wish to cast doubts on the good faith of the federal officials who have estimated the value of the national production. It is very difficult to express in definite figures the production of a country such as Canada. Indeed, the booklet distributed to the Provinces and entitled "National Accounts Income and Expenditures 1938-1944" states on page 4 that the margin of error in determining the Gross National Product for 1944 is approximately \$265,000,000. Owing to this margin of error, it would be very difficult to use the figures supplied by the Federal Government as a basis for a grant. Many of the methods employed are most questionable, and the data, in the opinion of the Quebec Government, cannot be used for the purpose of working out a basis for a grant. The only acceptable basis would be the amount of population ascertained by the decennial census, in this case, the 1941 census. The Province of Quebec believes that the basic figures should be the least questionable possible, so as to avoid causes of dispute between the governments. Indeed, the needs of the governments are directly proportional to the population itself.

Again, the acceptance of the federal proposals would not free the Province of Quebec from the obligation of ensuring the development of its natural resources and its road system, of protecting public health and of insisting more and more on the improvement of its educational system.

In conclusion, the financial proposals of the Dominion Government tend to replace the system of fiscal autonomy of the Provinces, in the field of taxation, by a system of grants that would allow the Dominion Government to exercise over them a financial tutelage control. Such a system is incompatible with their sovereignty. Moreover, these proposals exclude the Provinces from the most important fields of direct taxation and to that extent deprive them of the exercise of the powers assigned to them by the constitution. Suppose the extreme case of a central government imposing on the inhabitants of a Province all possible taxes, direct and indirect, so as to leave the provincial government bereft of means for its own administration. Is it not a certainty that provincial autonomy would then be a meaningless word. The process is none the less an encroachment on the provincial prerogatives, if it is meant to deprive the Province of its most important sources of revenue and leaves it with the least important and the most arbitrary sources.

Moreover, the Government of the Province of Quebec is of the opinion that it would be dangerous to set up precedents permitting the Federal Government to free itself from promises made in 1867 and 1942. A government that was not concerned about its obligations might invoke these precedents to free itself from the payment of the new grant proposed to be paid to the Provinces.

2. *Social Security Proposals:* The Dominion proposals with respect to social security are obscure. These proposals would certainly bring about very profound changes in our social and family institutions since they contemplate that the social legislation and a good portion of the labour legislation, both of which are within the exclusive competence of the Provinces, would escape provincial jurisdiction. In this respect, the federal proposals have to do at the same time with property, civil rights, education and relations between capital and labour, all fields reserved to the Provinces under section 92 of the British North America Act.

The Government of the Province of Quebec has concerned itself and will continue to concern itself with the problem of health insurance. It realizes, however, that the plan proposed by the federal authorities is, by common consent, imperfectly elaborated, that it cannot be carried into execution in its present form and

that it contains principles that are incompatible with the autonomy of the province. For instance, let us enumerate subject-matters which relate to health insurance and which are within the exclusive jurisdiction of the Provinces: the establishment, maintenance and administration of hospitals, asylums and charitable institutions; education in all its branches, including the university studies, the regulation of professions, as well as the conditions of admission to the practice of medicine and the relations between physicians and clients. Health insurance is intimately related to all these matters and legislation of this type, assigned exclusively to the Central Government, would inevitably lead to federal interference in all these fields which ought to be free of Dominion authority.

Moreover, the establishment by the Dominion Government of a health insurance plan would very often give rise to a duplication of provincial services. The Province of Quebec, in particular, already has a Department of Public Health; it has public health units covering the whole Province; it builds new hospitals and enlarges old ones and it is helping in the establishment, on the most modern basis, of a Public Health School affiliated with the University of Montreal. To direct and administer these health services, it has an experienced and skilled personnel. If the Dominion Government were to put into force health insurance legislation, it would have to train a new personnel, thereby duplicating provincial functionaries and doubling the costs; such a personnel, being further removed from the centre of operations, would of necessity give a less efficient service.

One should not either lose sight of the fact that whether organized by the Central Government or by Provincial Governments, social services will always, in the last analysis, be paid for by the same taxpayers.

The Federal Government must increase its fiscal revenue if it desires to bring about an improvement in its administrative services. In the case of health insurance, during the discussions between the Federal Government and the Provincial Governments, the Federal Minister of National Health and Welfare has stated that the government would levy, to defray part of the necessary expenses, a 5 per cent additional tax on the income of all taxpayers, without exception. Such measure, besides increasing the percentage of the national income absorbed by federal taxation, will reduce still more the financial possibilities of the Province of Quebec.

Moreover, social legislation will be beneficial in as much as it is adapted to the needs and the cultural aspirations of the population to whom it is to be applied. In such a case, local interest is founded on general interest, and Provincial Legislatures, being in direct contact with the people, are in a better position than the Federal Government to determine the type of legislation that ought to be adopted. In this field, the best system is undoubtedly that of a co-operation, respectful of the provincial prerogatives, between the Central Government and the Provincial Governments. That is the system which was adopted for old age pension and pensions for the blind, and it is, moreover, the system recommended in the proposals under consideration for old age pensions from 65 to 70 years.

In the field of social legislation, the federative system probably offers advantages not met with in countries with but one government. Indeed, the coexistence of several governments, all autonomous within their respective spheres, since it affords points of comparison, tends to foster a beneficial emulation for the greatest good of the governed.

Lastly, the system of contributions advocated by the Federal Government, for example, either in matter of social legislation or with respect to public works, appears peculiar to the Government of the Province of Quebec. The Federal Government, on the one hand, asks the Provinces for the exclusive monopoly of the main sources of revenue and on the other requires, with respect to the implementation of several of its projects, a heavy contribution by the Provinces. This

contribution is extremely variable, the Federal Government, in the case of public works, for instance, offering to pay 20 per cent of the costs of the works, leaving 80 per cent to be shouldered by the Provinces and the municipalities. The disparity between these respective contributions becomes more striking, if one considers that the Federal Government presently receives in taxes from 30 per cent to 33 per cent of the national revenue, whilst all the provinces together receive only 5 per cent.

3. *Federal Proposals Respecting Public Investment:* The federal proposals attach considerable importance to public investment. The problem is a vast one and the federal proposals are very indefinite and complex. The federal proposals in this respect appear to relate to matters that are of provincial competence. We merely point out that the Dominion Government proposes to be entrusted wholly and exclusively with, amongst others, "General and basic research on resource development, conservation and protection problems and methods; research requiring large diversified staff and highly specialized technical personnel."

The following is part of the enumeration contained in this respect in "Proposals of the Government of Canada":

(Page 24) (ii) mineral and forest resources, including research on ore dressing, metallurgy, fuels, special problems of mineral extraction and silviculture and utilization of forest products;

The Government of the Province of Quebec believes, since these matters are of provincial competence, that the acceptance of the federal proposals would give rise to duplication, resulting in a needless increase of the cost of public administration.

Hitherto, furthermore, the Government of the Province of Quebec has put into force many measures intended to protect its natural resources and it is satisfied that a better and fairer distribution of public taxes would improve and add to its means of action in this domain.

Moreover, the federal proposals would amount to an indirect and dangerous seizure by the Central Authority of the provincial natural resources. These natural resources are essential to the very existence of the Provinces. They are an inheritance which it behooves them to preserve jealously with a view to ensuring their economic development and their survival. The provincial proprietary right in this field is so extensive as to be unaffected by the taxes and indebtedness of the Dominion Government.

The natural resources of a Province are endowed so to speak with extra-territoriality to the benefit of the Province and the federal intervention in this domain of paramount importance is neither desired nor desirable and would open the door to encroachments that might become ruinous for the Province and its rights.

The offers of the Dominion Government relative to matters of unemployment do not take into account the great financial responsibilities of the Central Authority in this respect and impose on the provinces a very heavy financial burden at the very moment when, under the federal proposals, the Provinces would be deprived of their main sources of revenue.

Conclusion

The Federal Authorities state that the acceptance of their proposals would have the effect of safeguarding the autonomy of the Provinces, of applying a progressive social policy, of satisfying the needs of the country as well as of the Provinces whilst at the same time decreasing public taxation.

It is hard to understand how it could be possible to increase the revenue of the Province and of the Federal Government whilst at the same time decreasing taxation. Such a theory is evidently illogical.

The provincial autonomy cannot be safeguarded by substituting a federal grant for the financial independence of the Provinces.

The sovereignty and autonomy of the Provinces are diametrically opposed to federal tutelage. The Province of Quebec in particular has long since come of age. It is not hard to see that tutelage or guardianship is contrary to the rights, prerogatives and liberties that are the inheritance of the Province and are attributed to it by the constitution. The exclusive rights of the Provinces in matters of social legislation, education, civil rights, etc., must be safeguarded in their entirety if confederation is to endure. The federal proposals as propounded and explained by the Federal Authorities are a serious and direct interference with the inalienable rights of all the Provinces.

The federal proposals lead to centralization, which is contrary to the spirit of the federative pact; they tend to establish and increase a bureaucracy which is not suited and can never be suited for either a democracy or a country governed under parliamentary institutions.

A few months ago, a distinguished American statesman, Mr. Hatton W. Sumners, of Texas, former chairman of the important Judiciary Committee of the House of Representatives at Washington made the following statement:

. . . By making the units of state government financially dependent on the Federal Government, that government is acquiring the power to control the units of state government. When this is fully consummated, the sovereignty of the state governments will be liquidated. . .

. . . In weakening the states we weaken the whole fabric of free government. The inescapable price of free government is that we exercise it. The most destructive force in the world is no use. If we do not use our powers of self-government in the states we will awake one day to find that self-government has passed irrevocably out of our hands. Government is exercised best in the local community. There the problems are perceived with greater clarity because they are close to the people and on a scale within their grasp. The self-reliance of the individual, town and state is being destroyed as they are being relieved of the necessity of governing themselves. When people stop thinking for themselves there is always someone willing to step forward and do their thinking for them . . .

. . . Nature has not endowed any group of human beings with the sweep and grasp of intelligence necessary to handle the multitude of federal and local problems dumped upon Washington . . .

. . . The states must resume the status of responsible sovereign agencies of general government or democracy cannot live in America.

The principles set forth in this declaration apply perfectly to the Canadian confederative system.

The Province of Quebec is in favour of a sound social legislation, which is a subject matter exclusively reserved to the Provinces.

True social security must afford elements of durableness and stability which alone in respect of the constitution, of the rights the individual and, in particular, of the taxpayer, may impart to it. The Canadian constitution is the result of co-operation rightly understood among the provinces; this co-operation must continue for the greatest good of the country. The federal proposals seem contrary to this spirit of co-operation.

In the opinion of the Government of the Province of Quebec, the country needs three things: Firstly, the clarification and precise definition of the taxing powers, of the federal and provincial governments, in accordance with the spirit and letter of the Canadian constitution, that is, keeping in mind the past, the present and the future.

Secondly, simplification of public taxation to diminish the cost and facilitate the collection.

Thirdly, collaboration of all those powers with a view to reducing taxes and lightening the burden weighing on the always forgotten man: the taxpayer.

These three conditions may easily be realized by establishing a permanent committee composed of authorized representatives of the ten governments of the country, studying and working together as true brothers in the great Canadian family, respectful of and concerned with the rights, prerogatives and liberties of each one of its members.

During the time necessary for the study and solution of these Canadian problems, a temporary agreement, precise, clear and categorical, the duration of which would depend on the needs of the federal body and the needs of the Provinces, might be entered into, as a temporary measure, but based on the very foundations of the Canadian Constitution.

In short, it would be possible to rent, and we insist on the term rent, in return for a fair compensation not only material but even constitutional, certain present taxation powers of the Provinces, powers that could reasonably be rented without in any way impeding the march forward, the progress and prosperity of the Province.

Therefore, we reiterate the sincere desire of the Province of Quebec to collaborate and co-operate for the prosperity and greatness of the country. This goal may surely not be attained without the greatness and prosperity of the autonomous Provinces being also guaranteed and safeguarded.

DOMINION-PROVINCIAL CONFERENCE 1945-46

SUPPLEMENTARY SUBMISSION OF THE
GOVERNMENT OF SASKATCHEWAN

April 25, 1946

April 25, 1946.

SUPPLEMENTARY MEMORANDUM—PROVINCE OF SASKATCHEWAN

In order that the position of the Province of Saskatchewan may be unmistakably clear on the fundamental issues before the Conference the Government feels obliged to make a supplementary representation prior to the reconvening of the Co-ordinating Committee in Ottawa on April 25.

The conclusion that a further representation is necessary has resulted from the manner in which the Conference has developed. The Dominion has seemed most reluctant to discuss certain matters, such as adjustment grants, deemed by the Government of this Province to be fundamental; the delays in announcing Dominion policy on public investment and with reference to health grants have been very discouraging; and finally certain changes proposed by the Dominion in connection with the calculation of subsidies in complete defiance of the fiscal needs of the various provinces, have caused speculation as to whether the main purpose of the Conference is to secure that the provinces shall be in a position to discharge their constitutional obligations or merely to secure that the powers of taxation shall be centralized at Ottawa.

It is the desire of the Government of this Province to state in unequivocal terms that grants to the provinces should be on the basis of fiscal need. That there should be grants of some kind payable by the Dominion to the provinces seems to have been conceded at the time of Confederation and ever since. This conclusion appears all the more obvious if the chief sources of revenue through taxation are to be surrendered by the provinces to the Dominion. It seems equally obvious that these grants should be on the basis of fiscal need.

It was a declared purpose of Confederation as expressed in the British North America Act that the identity of the provinces should be preserved and it is difficult to see how this can be accomplished unless these provinces are in a position to discharge their obligations up to the prevailing concept of social services. In this regard it may be worth noting that in the course of the Confederation Debates Honourable A. T. Galt made the following significant statement:

I now propose, Sir, to refer to the means which will be at the disposal of the several local governments to enable them to administer the various matters of public policy which it is proposed to entrust to them, and it is evident that unless ample provision is made in the arrangements, great danger will arise that the machinery whereby the local wants of the people are intended to be met will speedily become impaired, causing complaint on the part of the inhabitants of the respective localities and involving considerable danger to the whole machinery of government.

Summarizing the matter of the purpose of subsidies Dr. R. A. MacKay, Professor of Political Science in Dalhousie University, has written as follows:

It thus seems clear that fiscal need was the paramount consideration behind the subsidies provided in the British North America Act 1867 and that the principle of equality of treatment as between the provinces and the question of the adequacy of financial return for lost taxing powers had to give way to fiscal need.

It may therefore be assumed that subsidies were originally paid on the principle of satisfying the fiscal needs of the provinces and the fact that a mistake was made in calculating them largely on the basis of population does

not affect the argument now being made. Nor does the fact that the needs of the provinces have vastly increased since 1867, largely through an expanding concept of social services, alter the argument. Indeed the argument is strengthened as the obligations of the provinces become greater. Moreover, it is here submitted that in a country such as Canada, claiming nationhood, with matters of finance virtually under the complete control of the central government it is unthinkable that people should be prejudiced by the accident of living in one part of the country rather than another.

The conclusions reached above were forcibly expressed in the Sirois Report after extended study by the Royal Commission on Dominion-Provincial Relations. It is a matter of great regret to this Government that the Dominion has apparently abandoned the Sirois Report but, as stated in the submission of this Province filed in January of this year, the proposals of the Dominion may still be acceptable provided certain changes are made. One of these involves the acceptance of the principle of the adjustment grant which will give some guarantee that the fiscal need of the provinces will be met.

An examination of statistics on annual incomes in the decade 1935 to 1945 indicates the tremendous variation of income in Saskatchewan. In periods of low income not only are the obligations of the government vastly increased through demands for various types of relief and other services but the revenues available to the government decline sharply and with dramatic suddenness. Without a recognition of the adjustment grant to take care of such emergencies the future of a province such as Saskatchewan would be most insecure.

This matter has been particularly emphasized for the reason that certain modified proposals with reference to the calculation of subsidies were made by the Dominion on January 31. These modified proposals actually operated in the direction of prejudicing the provinces most in need of financial assistance and giving increased guarantees to the wealthier areas. This has caused the Government of Saskatchewan to wonder whether the principle of fiscal need has been entirely lost sight of and whether the centralizing of taxing powers has become the matter of paramount consideration.

It is now proposed to give some attention to the modified proposals of January 31.

MODIFIED PROPOSALS OF DOMINION

Until early in 1946 discussions had proceeded on the basis of the proposals submitted by the Dominion in August, 1945. These proposals contained the following specific statement with respect to the per capita subsidies:—

The Dominion Government therefore proposes, in lieu of present statutory subsidies and payments under the wartime tax agreements, and conditional upon provincial acceptance of its tax proposals, to pay each provincial government the sum of \$12 per capita annually, increased or decreased in proportion to the value of Gross National Production per capita as compared with that of 1941. This proposed annual payment would however be subject to an irreducible minimum equal to \$12 per capita of 1941 population. (p. 49).

Modified Proposals

The summary of the Dominion's modified proposals read into the record of the Co-ordinating Committee meeting on January 31, contained the following:

The Dominion proposes to increase its grant to the provinces from \$12.00 per capita to \$15.00 per capita based on the 1942 population as an irreducible minimum, with increases proportional to any increases in per capita gross national production over the 1942 level. Alternatively the

amount paid to any province would in no case be less than 150 per cent of the province's Wartime Tax Agreement receipts (excluding gasoline tax guarantees) or less than \$2 millions. The irreducible minima under the revised proposals are shown below as compared with the irreducible minima under the Dominion proposals.

	Payments under 1941 Tax Agreements plus Statutory Subsidies and 1939-43 average of succession duty collections	Irreducible Minimum Payments		Amounts which would be paid in 1946 on basis of average GNP and population of three preceding years
		Original Proposals	Suggested Revision	
		(millions of dollars)		
P.E.I.....	1.1	1.1	2.0	2.0
N.S.....	4.2	6.9	8.9	9.9
N.B.....	4.8	5.5	7.0	7.5
Que.....	32.1	40.0	50.9	56.8
Ont.....	44.0	45.5	58.3	64.2
Man.....	8.0	8.8	10.9	11.8
Sask.....	8.3	10.8	12.7	13.7
Alta.....	8.2	9.6	11.6	13.2
B.C.....	14.2	9.8	18.1	18.1
Total.....	124.9	138.0	180.4	197.2

The following paragraph shows a further detail concerning the base period under the modified proposals:

The Dominion grant would be paid on the basis of the average of the population and gross national production figures of the three preceding years. This would provide more stable Dominion grants, would permit provinces to budget with more certainty and would have the immediate effect of giving to the provinces grants based on the high income of the later war years.

Saskatchewan adversely affected

It may be assumed from the wording of section 1 of the Modified Proposals and from the accompanying statistics of the "Irreducible Minimum Payments" to provinces that both the 1942 estimates of population and the 1942 estimate of Gross National Production are used in calculating the "irreducible minimum payments." Thus, for Saskatchewan, on the estimated population for 1942, this would be $848,000 \times 15 = \$12,720,000$. On the basis of the 1941 census the \$15 per capita grant would yield $896,000 \times 15 = \$13,440,000$, or \$720,000 more, in the poorest year.

It would also appear that the 1942 estimate of population is to be used only for determining the "irreducible minimum payment", that is only when the Gross National Production falls to that of 1942 or lower, or, alternately when, with a Gross National Production higher than 1942 but a population lower than 1942, the product of per capita grant based on such GNP and the actual or estimated population would produce less than the "irreducible minimum payment." Thus, applying the formula of section 2 above, the Secretariat of the Co-ordinating Committee determined the 1946 payments to each province by multiplying (a) the average of the *Canada Year Book* population estimates for 1943 and 1944 and the Conference Black Book's estimate for 1945, by (b) the payment (determined from the 3-year estimated average of the GNP for 1943-45) of approximately \$16.20 per capita.

On the above basis the population base for Saskatchewan becomes 844,330—lower even than the 1942 estimate of population—and the 1946 payment works out to \$13,677,000. This figure is \$66,000 less than use of the estimated 1942 population and \$843,000 less than use of the actual 1941 population would have yielded. If the population of Saskatchewan should decline to about 800,000 a consistently high GNP providing a per capita grant in excess of \$16 would clearly be necessary to maintain the Saskatchewan subsidy above the “irreducible minimum” in any year.

A further interesting point in connection with these modified proposals is that in the computation of 1946 payments, Saskatchewan is the only province that loses through substitution of the estimated 1943-45 average of population for the 1941 census—or even the 1942 estimated—population. In almost every instance the gains to the other provinces are very substantial. For instance, the 3-year average gives Ontario upwards of \$3 millions more than the 1941 census population figures would give.

Estimated Population of 1942

It still remains one of the undisclosed mysteries as to why the Dominion should have abandoned the year 1941 for which census figures were at hand in favour of 1942 for which only an estimate by the Dominion Bureau of Statistics is available. On the face of things this change seems quite illogical and calls for an explanation. Moreover, there is no particular reason for putting much reliance upon the estimated population figure for 1942.

Figures are available showing the estimates by the Bureau of the population of Saskatchewan for a number of years, and a comparison of tentative estimates with revised estimates (based on the census) for the period 1931-41 reveal discrepancies of some magnitude. For instance, the tentative estimate for 1939 was 949,000 and the revised estimate 906,000. The census figure for 1941 was 896,000. In 1938 the tentative estimate was 941,000 and the revised estimate 914,000. If the error could be as high as 27,000 in a normal year such as 1938 it could certainly be even greater for an abnormal war year. In this connection it may be mentioned that on February 1, 1943, the Bureau gave the Saskatchewan Department of Public Health an estimate of 905,974 as the population of Saskatchewan in 1942 for vital statistics purposes. In a letter of May 17, 1944, the Bureau scaled this estimate down to 848,000.

Although it will be conceded that the natural increase of the population in a designated area may be estimated with a considerable degree of accuracy it is suggested that an estimate of migration in a given period is little better than conjecture. In the case of Saskatchewan for the period after 1941 the only available check on the estimate appears to be the count of turn-in cards from ration book No. 3 made in 1944. On the basis of this count, after making adjustments for persons in the armed forces and others not holding ration books, the D.B.S. estimates the population of Saskatchewan in 1944 to be 844,000. This is not far off the estimate of 846,000 given in the 1945 *Canada Year Book*, p. 128, as the annual intercensal estimate for 1944. While the ration book count therefore appears to confirm the 1944 estimate of Saskatchewan's population, it provides no justification for the inference that 48,000 of the 50,000 persons which the province lost between 1941 and 1944, were lost in the year 1942. The estimated decrease of 48,000 in Saskatchewan's population in that year implies a highly abnormal fluctuation in the general population trend of the province. It is several times as great as the decline estimated for any year in the preceding decade and also eight times as large as the estimate for the succeeding year. An estimate of this sort should be made only if there is definite statistical evidence to prove that such an unusual change in population did occur in 1942. So far that statistical evidence

has not been brought to light. Actually we would contend that the migration of war workers from this province did not cease dramatically in 1942. Between April 1, 1942, and April 1, 1943, the percentage of the population (14 years and over) which was gainfully occupied increased from 46·9 per cent to 47·7 per cent. The proportion of the population engaged in war industry rose from 9·8 per cent to 12·8 per cent. The proportion in agriculture and occupied as farm women declined slightly. It seems fairly obvious, therefore, that war production was still being accelerated in 1943, and an explanation is required as to why the movement of Saskatchewan people to industrial centres which had begun in 1941 and 1942 should be very sharply reduced in 1943 in the D. B. S. estimates.

1942 an Abnormal Year

Even if the estimate of the Bureau for 1942 is assumed to be correct it offers no justification for the selection of that year as the base for the calculation of minimum subsidies. The decreased population for 1942 would merely represent an unusual participation by the people of this Province in the war effort of the Dominion which tended to centralize industrial activity in other parts of Canada.

In fact, if the records and the estimates speak truly the population changes in Saskatchewan from 1931 to 1942 show one of the strangest anomalies to be found in statistical material. According to the 1931 census the population of the province in 1931 was 922,000. By 1941, again according to the census, the population had declined to 896,000. The total decrease in ten years was 26,000. This means that in a decade which included crop failures, drought and a general depression the average decrease in the population of the province was 2,600 a year. Then from 1941 to 1942, a year of comparative prosperity, the decrease was 48,000. To add to the anomalies it may be stated that the Bureau estimate of the population for 1940 was 900,000, that is, there was a decrease of 4,000 from 1940 to 1941, and as has been stated above the decrease, according to Bureau figures, from 1942 to 1944 was only 2,000.

These things may all be true for truth may be stranger than fiction. But whether true or not, the Province objects to the change of the base year from 1941 to 1942. The objection is not solely or chiefly to the potential loss faced by Saskatchewan. It is chiefly to a changed formula which seems to favour not fiscal need but fiscal power.

BENEFITS FOR THE SELF-EMPLOYED

The Federal Government's proposals to the Dominion-Provincial Conference on Reconstruction involve relieving the provinces of the burden of unemployment relief by providing either unemployment insurance or unemployment assistance to all employable unemployed persons. Under the Dominion's proposals, however, the provincial governments would still be responsible for the relief of unemployables and of all groups of self-employed persons who suffer loss of income. The Saskatchewan Submission of January, 1946, pointed out that this division of responsibility discriminates seriously against the predominantly agricultural provinces whose burden of unemployment relief may be relatively light but who may have to provide relief for very large numbers of farmers in years of drought and crop failure. In its January Submission the Province contended that if the Dominion is to give equal treatment to all the provinces, it must guarantee to the self-employed who suffer loss of incomes from causes beyond their control a measure of economic security at least comparable to that which it proposes for employees in trade and industry. The Government of Saskatchewan suggested that this might be achieved by (a) a guaranteed floor price and (b) a crop insurance scheme or, in the alternative, an extension of present benefits under the Prairie Farm Assistance Act.

The Dominion has already taken the first step towards a guaranteed floor under prices by its Agricultural Prices Support legislation. If this legislation is fully implemented and is combined with Federal marketing boards, similar to the Canadian Wheat Board, for all grains, livestock and livestock products, protection of the farmer who manages to produce a crop is reasonably well assured. But for the farmer who suffers a total or partial crop failure additional assistance is required. The Government of Saskatchewan contends that this problem is as much a national responsibility as unemployment relief. A national scheme of crop insurance financed by contributions from the federal and provincial governments and from all farmers in Canada would be the ideal solution. Failing such a scheme, a substantial extension of P.F.A.A. benefits is absolutely essential if the self-employed are to be guaranteed protection against loss of income even roughly equivalent to that projected for industrial employees. In this submission we propose to demonstrate that present P.F.A.A. benefits fall far short of unemployment benefits and to suggest the lines along which such farm benefits should be revised.

Our basic premise is that the Prairie Farm Assistance Act is good as far as it goes and benefits not only the western farmer but Canada as a whole since a stabilized western economy is necessary for the economic welfare of the country. Our present proposals are designed solely to indicate how P.F.A.A. can be made a more effective instrument for the stabilization of western agriculture.

Unemployment Benefits vs. P.F.A.A. Benefits

Unemployment insurance benefits range from \$4.08 to \$14.40 a week depending on the rate of contribution by the worker and whether or not he has dependents. The Dominion proposals would provide unemployment assistance at 85 per cent of these rates to all uninsured workers (and to those insured workers whose benefits have been exhausted), steps being taken at the same time to bring as many workers as possible directly under unemployment insurance. Unemployment insurance benefits paid continuously for a period of 52 weeks would involve payments ranging from \$212.16 to \$748.80. While few, if any, workers at present draw these benefits for a whole year, the possible yearly payment is the only appropriate figure for use for comparison with the assistance required by farmers under P.F.A.A. since a farmer who suffers a crop failure needs assistance for the full 12-month period, that is until his next crop is marketed.

Unemployment insurance statistics show that far more workers are at present qualifying for benefits at the upper end of the scale than at the lower end. In 1943, for example, the average daily benefit paid was \$1.84 which would be equivalent to \$574.08 for a year of 312 working days. In 1944 it was \$1.91 equivalent to \$595.92 a year and in 1945, \$1.95½ equivalent to \$609.96 a year. In December, 1945, and January, 1946, the latest months for which figures are available, the average daily benefit was \$2.05 which would amount to \$639.60 on a yearly basis. It is evident, therefore, that unemployed insured workers have been receiving on the average, during the past three years, benefits which on a yearly basis would range from \$575 to \$640. Unemployment assistance would provide them with 85 per cent of these amounts.

The present benefits paid to farmers under the Prairie Farm Assistance Act fall far short of these amounts. The maximum amount payable to any farmer under P.F.A.A. is \$500 but the highest average payment for complete crop failure in any province in any of the six years since the Act went into effect was under \$400. The average payment per beneficiary in each of the various categories is shown in the accompanying table for Saskatchewan and for the three Prairie Provinces for the crop years 1939-40 to 1944-45, inclusive.

Average Payments Per Farmer Benefiting Under Various P.F.A.A. Categories,
Crop Years 1939-40 to 1944-45 Inclusive

Year	Crop Failure	Emergency Year			All Categories
	0—5 Bu. (Max. \$500)	0—4 Bu. (Max. \$400)	4·1—8 Bu. (Max. \$300)	8·1—12 Bu. (Max. \$200)	(Max. \$500)
	\$	\$	\$	\$	\$
1939—1940:					
Saskatchewan.....	369·82	.....	205·62	129·40	196·59
3 Provinces.....	369·82	218·71	196·35	121·70	174·58
1940—41:					
Saskatchewan.....	.....	261·30	181·96	97·58	136·77
3 Provinces.....	.....	251·95	176·18	95·94	129·99
1941—42:					
Saskatchewan.....	366·41	276·30	197·45	78·38	192·74
3 Provinces.....	355·20	269·71	188·59	75·15	179·44
1943—44:					
Saskatchewan.....	.....	303·46	215·38	.....	234·41
3 Provinces.....	360·14	292·50	214·86	.....	244·89
1944—45:					
Saskatchewan.....	396·10	140·42	206·31	.....	282·25
3 Provinces.....	389·34	219·09	201·93	.....	283·56
1939—45:					
Saskatchewan.....	377·44	245·37	201·34	101·79	208·55
3 Provinces.....	368·62	250·39	195·58	97·60	202·49

It is neither suggested nor implied that farmers in the higher categories who suffer only a partial loss of income should receive the same benefits as unemployed workers. It does, however, seem reasonable that farmers with a complete crop failure should receive no worse treatment than the unemployed. Yet it is evident from the table that farmers in the complete crop failure category in the three Prairie Provinces received an average of only \$369 per year and those in the lowest yield category of the "emergency year" only \$250 per year in the past six-year period. Payments in the crop failure category are \$2.50 per acre and in the lowest "emergency year" category \$2.00 per acre. In both cases the payment is made on one-half a farmer's cultivated acreage up to a maximum of 400 cultivated acres. The fact that the average payments are so far below the maximum payments indicates that a considerable proportion of the farmers qualifying for these benefits had less than 400 acres under cultivation. The \$2.50 crop failure benefit is paid only if a specified minimum number of townships in a province (171 in Saskatchewan, 90 in Alberta and 54 in Manitoba) have an average yield of five bushels or less per acre from causes other than hail. Hailed-out townships are always paid at the lower rate even in a province which has been declared a crop failure area.

In order to obtain unemployment benefits presently equivalent to \$640 a year, workers contribute from 12 to 35 cents a week or from \$6.24 to \$18.72 a year. A rough estimate of the average contribution per worker can be made by dividing the number of persons in insurable employment at April 1, 1943, into the total employee contributions for the fiscal year 1943-44 and the same can be done for 1944-45 figures. The results show an average contribution per worker of \$16.50 in 1943-44 and \$15.57 in 1944-45. It is recognized that these contributions are only approximate as the number insured at April 1 in any year may be unduly low or high and a number of persons may be insured for only part of the fiscal year.

Under the provisions of the Prairie Farm Assistance Act western farmers contribute one per cent of the value of all grain marketed. During the past six years the average annual contribution per farm operator (using 1941 census

figures for farm operators) was \$13.11 in Saskatchewan and \$10.84 in the three provinces.* This is not very much below the average employee contribution under unemployment insurance. Certainly the amount by which it is below does not appear proportionate to the amount by which average P.F.A.A. benefits are below average unemployment benefits.

It is an interesting and significant fact that during the past six years farmers' contributions through the one per cent levy have paid for 42 per cent of the total benefits paid out under P.F.A.A. In Saskatchewan contributions through the one per cent levy have covered about one-third and in Alberta about one-half of the payments made; in Manitoba contributions have exceeded benefits. The accompanying table shows the proportions of contributions to total disbursements in each of the three provinces over the six full crop years during which P.F.A.A. has been in operation.

*P.F.A.A. Levies as Percentage of Disbursements,
Crop Years 1939-40 to 1944-45, inclusive*

Year	Sask.	Man.	Alta.	3 Provinces
	(per cent)	(per cent)	(per cent)	(per cent)
1939-40.....	17.3	38.1	46.3	23.6
1940-41.....	24.3	57.7	172.1	38.4
1941-42.....	5.9	931.6	11.8	9.4
1942-43.....		No disbursements		
1943-44.....	54.5	4671.3	49.1	63.0
1944-45.....	108.1	461.6	49.9	90.2
1939-45.....	32.7	178.3	49.3	42.0

There appears to be little point in estimating what proportion of unemployment benefits are being covered by current contributions as the employment situation has been abnormal during the war and substantial payment of benefits is only beginning. Unemployment insurance is supposed to be an actuarially sound scheme. Presumably, therefore, the contributions will normally cover the benefits paid out each year and leave a reserve for abnormal years. It is interesting to note that employee contributions amount to only about 45 per cent of the total contributions by workers, employers and the government (1943-44 and 1944-45 figures). If the workers are expected to pay only 45 per cent of unemployment insurance, farmers should not be expected to pay a higher proportion of P.F.A.A. benefits. The employer's contribution is part of his cost of production and as such will usually be passed on to the consumer; consequently it is not very different from the government share—i.e. it is paid by the people at large through some form of direct or indirect taxation. It should also be pointed out that the government alone will pay the entire cost of unemployment assistance, so that the workers' share of the total cost of unemployment insurance and unemployment assistance will be much less than 45 per cent. Thus the farmers' present contribution to P.F.A.A. by no means compares unfavourably with the workers' contribution to unemployment relief.

The federal government bears the administrative costs of both P.F.A.A. and unemployment insurance. It is worthy of note that the administrative expenses of P.F.A.A. have never exceeded half a million dollars and were as low as \$186,767 in 1944-45 when inspection costs were shared with the wheat acreage reduction program. Unemployment insurance costs, on the other hand, outside of the first year of operation have never been less than \$4½ millions and averaged

* Farmers in the Peace River area of British Columbia were not included in the figures for farm operators although they pay the levy and are covered by the Act.

a little over \$5 millions during the past two years. The per capita costs are also much higher for unemployment insurance than P.F.A.A. In 1944-45, for example, the cost of administration per insured worker as at April 1, 1944, was approximately \$2.30 while the cost of administration of P.F.A.A. per farm operator in the three Prairie Provinces was approximately 63 cents.

P.F.A.A. Benefits Offer Inadequate Protection

It is frequently asserted that a farmer's cost of living is lower than the urban dweller's since a farmer produces at least some of his own food. This is more true of the Eastern than the Western farmer, and, in turn of the Western farmer on a small unit in the park belt than of the large specialized wheat farmer of the Palliser Triangle where most crop failures occur. Moreover, a farmer has other expenses which the urban worker does not have. The worker needs only his two hands to earn his living but the farmer must have seed, feed, fodder, gasoline, machinery and equipment before he can earn a cent. If he has no crop, he must obtain money for his production expenses of the next year from some source—usually either by credit advances or relief in the form of agricultural aid from governments. If P.F.A.A. payments are to take the place of relief, they must provide the farmer with enough to cover his minimum out-of-pocket expenses as well as a minimum subsistence.

Intensive studies made by the Department of Farm Management of the University of Saskatchewan during the period 1929 to 1940 show that out-of-pocket costs of production vary according to the size of the farm and the yield per acre. It is quite apparent from these studies that the absolute minimum required for such out-of-pocket expenses—exclusive of any provision for depreciation or replacement of buildings and equipment—by a relatively small wheat farmer (one-half to three-quarter section unit) in a year of complete crop failure would be at least \$500.

Cash living costs for farm families were also studied by the Department of Farm Management over the same period. These studies indicate that even in the depths of the depression, few farmers in the wheat-growing areas at least could manage with less than \$400 or \$500 for cash living expenses and undoubtedly very large numbers were not spending enough to maintain health adequately. It must be emphasized that these figures represent actual expenditures rather than scientific estimates of the amount needed for proper maintenance of health and welfare.

From the Farm Management studies it seems abundantly clear that \$500 for living expenses and another \$500 for farm expenses is a rock-bottom minimum for the average prairie farmer. A farmer should not be expected to get along with less when he suffers a complete failure of income through conditions beyond his control.

It will scarcely be argued that relief payments either for direct assistance or for agricultural aid in the nineteen-thirties were unduly generous or that they provided assistance beyond the bare minimum. Yet it is interesting to note in this respect that in certain representative municipalities which suffered a total crop failure in 1937, the average payment per farmer for direct relief and agricultural aid was close to \$900. This was the average payment for an entire municipality although it is obvious that certain individuals would have some income or would possess some reserves. The following table shows the average payment per farmer for direct and agricultural relief in five fairly typical municipalities suffering crop failure in 1937.

Average Relief Payment Per Farmer in Five Rural Municipalities
in Saskatchewan, 1937-38

R.M.	Farmers	Direct Relief	Per Farmer	Agricultural Relief	Per Farmer	Total Relief	Per Farmer
		\$	\$	\$	\$	\$	\$
73.....	554	144,971	262	300,566	542	445,537	804
74.....	374	119,945	321	243,473	651	363,418	972
105.....	427	133,942	314	249,863	585	383,805	899
138.....	366	101,127	276	227,360	621	328,487	897
166.....	609	192,394	316	273,268	449	465,662	765

The table indicates that while the average relief payment for living expenses was, in each municipality, below the suggested \$500 minimum, the average agricultural relief payment was, with one exception, above the proposed \$500. It is evident from the table that, irrespective of the way in which total relief payments are divided between direct and agricultural aid, relief officials recognized that the average farmer required nearly \$1,000 to tide him over to the next harvest. We submit, therefore, that in view of the total amount of assistance required by the average farmer in a year of crop failure, an increase in the maximum payment under P.F.A.A. to \$1,000 for farmers with a complete crop failure would not be unreasonable. Corresponding increases in the schedule of payments for farmers with a partial crop failure and adjustment of the minimum payable to the small farmer would involve no special problems.

Other Proposed Changes in P.F.A.A.

(a) Automatic Operation

As was pointed out in the Saskatchewan Submission of last January, there are a number of other aspects of the present Prairie Farm Assistance Act which, in our opinion, operate to reduce its value as a farm security measure. For instance, we submit that the discretionary power given to the Governor General in Council to bring the Act into effect in any year should be removed and the Act be automatically operative in the same way as the Unemployment Insurance Act.

(b) Required Minimum Number* of Townships

The P.F.A.A. requirement that a minimum number of townships in each province must suffer a crop failure (5 bushels per acre or less) before the highest rate of benefit is paid in the province causes considerable hardship and inequity and has no parallel in the Unemployment Insurance Act. Under the latter, benefits are paid on the basis of individual need and are not withheld as in the case of P.F.A.A. until the problem reaches a certain magnitude. It seems both illogical and unfair that farmers with five bushels per acre or less should receive \$2.50 an acre one year because 171 townships in the province had a similar average yield while the next year farmers in the same situation receive only \$2.00 or even \$1.50 per acre because only 165 townships averaged five bushels or less. Moreover, it might happen that an area of crop failure would cut across provincial boundaries affecting a large number of townships but not sufficient in any province for it to qualify as a crop failure area. The farmers' need is no less great because of this fact. The contention that the federal government should not be expected to assume full responsibility for a crop failure unless it is sufficiently widespread to affect 171 townships in Saskatchewan is no longer acceptable now that it has offered to assume full responsibility for guaranteeing a job or an income in lieu of a job to all employables. In equity, the Dominion should also stand prepared to guarantee a minimum income to all self-employed persons who suffer loss of earnings through causes beyond their control. Any other course means discrimination in favour of the industrial provinces.

We submit, therefore, that equal treatment for the self-employed implies abandonment of any required minimum number of townships and combining the crop failure and emergency year provisions of the Act into one scheme under which farmers would receive adequate aid on a scale varying with their yield.

(c) The Unit for Determining Eligibility

It has been widely advocated that P.F.A.A. should be placed on an individual farm basis instead of on a township basis as at present. It is pointed out that soil and moisture conditions vary even within townships, and that it is possible for a farmer with a low yield in a township with a high average yield to be disqualified while a farmer with a fairly high yield in a township averaging low in yield obtains the benefits.

The chief argument against the individual farm basis is the administrative difficulties. While we appreciate the administrative problems involved in adopting the individual farm as the unit for determining eligibility for benefits, we are of the opinion that the fullest possible consideration should be given to this problem and every avenue explored by which the Act might be made to approach more closely to an individual farm basis. The provision now in the Act permitting quarter townships adjacent to eligible townships to be declared eligible for benefit is an advance towards this goal. We feel that elimination of the required minimum number of townships before the crop failure provision becomes effective would be a further step in the right direction.

(d) Increased Levy

If the benefits under P.F.A.A. are to be substantially increased, as has been requested above, it will undoubtedly be urged that the one per cent levy on all grain marketing should also be increased in order to preserve a proper ratio between disbursements and collections. What the proper ratio is we do not presume to say. It has been shown above that the one per cent levy paid for 42 per cent of disbursements in the past six years. It is admitted that most of this period was marked by better than average prices and yields so that in more normal times collections under the one per cent levy might be expected to be a somewhat smaller part of the total cost of the scheme. However, with workers contributing directly only 45 per cent of total contributions to the unemployment insurance fund and nothing towards unemployment assistance, and with the administrative costs of unemployment insurance averaging from three to four times as much per head as the costs of P.F.A.A., we do not feel that the farmer should be expected to pay an unduly large proportion of P.F.A.A. benefits.

There is evidence, however, that farmers in the areas which have benefited at any time under the P.F.A.A. are prepared to pay a higher levy in order that the benefits may be increased. Thus, the Saskatchewan Association of Rural Municipalities at its last annual convention held in Saskatoon March 13-15, 1946, passed the following resolution: "That the Crop Failure Bonus be increased to \$5.00 per acre and that the maximum be \$1,000 and the assessment two per cent, and that payments be made on an individual basis." Two per cent appears to be a reasonable levy, particularly in view of the fact that most workers contribute rather less than two per cent of their wages to unemployment insurance.

It is suggested that, should the Federal Government feel it desirable, sufficient statistical data is now available to permit the introduction of a simple zoning system leaving the northern and north-eastern areas of this Province under the present one per cent levy, which is sufficient to cover the known risk, at the same time providing a higher rate for the more significant wheat-growing areas subject, particularly, to periodic drought. The situation appears to be roughly comparable in Manitoba and Alberta. If that is so it may be possible

to divide the whole of the three Prairie Provinces into two simple zones with the entire Palliser Triangle taking the higher premium and the less variable areas retaining the present one per cent levy.

It should, perhaps, be emphasized that, while the present recommendations of the Province of Saskatchewan would involve a doubling of benefits, a general increase in the levy to two per cent—or even introduction of the simple zoning system described above—would leave the ratio between disbursements and collections virtually unchanged. Admittedly, the ratio—and the Dominion's contribution under P.F.A.A.—may be changed by variations in economic conditions but this is equally true with respect to the heavy burden of responsibility which the Dominion has announced it is prepared to assume for unemployed workers under the proposals respecting unemployment insurance and unemployment assistance. We do not feel the Dominion can, in terms of simple economic justice, decline to do less for the equally exposed and vulnerable agricultural population of the Prairie Provinces.

In conclusion, we should like to state that our present recommendations respecting increased benefits and protection for the farmer under the Prairie Farm Assistance Act do not exhaust our ideas of what should be done by Governments to bring some measure of stabilization to the agricultural economy of Saskatchewan. Our present recommendations should be read as supplementary to all that we said in our January Submission about the vital necessity of price stabilization, floor prices, control of marketing, irrigation and extension of P.F.R.A. and what has been said both before and since with respect to averaging farm income over a number of years for income tax purposes.

CONCLUSION

This memorandum should be considered in all respects as a supplement to the general submission made on behalf of the Province in January last. No proposition put forward at that time is being abandoned. The intent of the present memorandum is to emphasize certain details of the general submission and in particular to emphasize the point that any new agreement should be based on the fiscal need of the provinces. This position has been taken consistently by the Province of Saskatchewan.

Frankly, the Government and people of this province have been somewhat worried concerning the progress being made by the Conference. The repeated adjournments have been understandable but the failure of the Dominion to announce a public investment program has been less so. Finally, the modified proposals of January 31 which definitely move away from the underlying principle of the Sirois Report have been extremely disturbing. This statement is made despite the fact that the new proposals are undoubtedly more generous to the provinces.

Despite the general feeling of pessimism that seems to be prevalent the Government of Saskatchewan still believes that a satisfactory agreement will be achieved. It believes, moreover, that such an agreement should be achieved on the basis of putting the provinces in a position to discharge their constitutional functions rather than on a basis of trading with the object of centralizing the taxing power at Ottawa. It may be, however, that the Conference will fail and that no agreement will be achieved. Such an event would be a national tragedy but nevertheless the possibility of such a failure must be envisaged. In the event of failure the Government of this province wishes to make one point very clear—that the Government of Canada will not be absolved of responsibility to the provinces. It is submitted that the Government of Canada as the agency having control of the fiscal machinery of the nation has a responsibility to see to it that the provinces are in a position to discharge their functions under an expanding concept of social services.

DOMINION-PROVINCIAL CONFERENCE
APRIL 29 — MAY 3, 1946

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Secretary—ALEX SKELTON

PLENARY SESSION — No. 5



DOMINION-PROVINCIAL CONFERENCE

Monday, April 29, 1946

OTTAWA
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1946

DOMINION-PROVINCIAL CONFERENCE

SENATE CHAMBER, OTTAWA, APRIL 29, 1946

REPORT OF PROCEEDINGS

The Dominion-Provincial Conference met in the Senate Chamber, at 10.30 a.m., the Prime Minister, the Right Hon. W. L. Mackenzie King, presiding.

Right Hon. W. L. MACKENZIE KING (Prime Minister): Gentlemen, I think I should at the outset express our appreciation to the Speaker of the Senate for permitting us to use this chamber at this time.

I would now ask the Secretary to read the report of the Co-ordinating Committee.

REPORT OF THE CO-ORDINATING COMMITTEE OF THE DOMINION-PROVINCIAL CONFERENCE

Mr. ALEX SKELTON (Secretary): The report is as follows:—

At the Dominion-Provincial Conference in August, 1945, a Co-ordinating Committee was established, consisting of the premiers of the nine provinces, three Dominion ministers, and the Prime Minister of Canada.

The Co-ordinating Committee met on August 9, 1945, also from November 26 to November 30, and from January 28 to February 1, 1946, and again recently on April 25 and 26.

In addition, the Economic Committee, which is a fact-finding body, established by the Co-ordinating Committee for the purpose of discussion at the technical level, met from December 4 to 14 in 1945, and again from January 8 to 17, 1946. The Economic Committee, under its terms of reference, made no collective report, but its members reported to their respective governments.

The Dominion proposals of August, 1945, and a number of suggested modifications of these proposals have been considered in detail. Consideration has also been given to proposals and suggestions made by some of the provincial governments.

At its meeting on Thursday, the 25th, the Co-ordinating Committee decided that at the conclusion of its meeting on Friday, the 26th, the Co-ordinating Committee should adjourn and a plenary session of the Conference be held on Monday the 29th inst. This decision was confirmed at the close of the proceedings of the Co-ordinating Committee on Friday afternoon. It was agreed that at the plenary session a statement on the Dominion proposals as revised, and statements by the several provinces would be made in open session.

Mr. MACKENZIE KING: Does anyone wish to comment on the report?

Report adopted.

STATEMENT BY THE PRIME MINISTER OF CANADA

Right Hon. W. L. MACKENZIE KING (Prime Minister): Gentlemen, in accordance with the statement made in the report of the Co-ordinating Committee just read, I am to present to the Conference this morning a statement of the Dominion's proposals as they now stand.

The normal relationships between the Dominion and the provinces were materially affected by the war. In 1941, to enable the Dominion to mobilize the utmost financial resources of the nation for the prosecution of the war, the provinces withdrew from the income and corporation tax fields, in return for fixed annual payments, the amounts of which were set forth in war-time tax agreements. It was contemplated, at the time the tax agreements were entered into, that once the war was over and the tax agreements expired, the provinces would again be free to levy income and corporation taxes. At the time no one could possibly have foreseen how long hostilities would last, and, least of all perhaps, the full extent of the colossal expenditures the prosecution of the war would involve, and the inevitable obligations and commitments it would occasion for years thereafter.

The Occasion of the Conference

As hostilities continued, it became obvious that the great changes the war was bringing about would make it difficult to revert to the financial relationships which had existed when the war-time tax agreements had been entered into. That was the first and main reason which necessitated the calling of a Dominion-Provincial Conference. A second reason was that the relationships between the Dominion and the provinces before the war had been far from satisfactory. In fact, the problem of Dominion-Provincial relations was one to which serious and urgent attention was being given when the war itself broke out.

For some time before the war ended, there was a growing appreciation of the complexity and difficulty of the situation through which the world would pass in the period of transition from war to peace. Chaotic conditions in the world, difficulties in the way of re-establishing ordinary peace-time markets and shortages of supplies of all kinds were to be anticipated. In the face of this prospect, Dominion and provincial governments alike recognized the need of finding practicable means of establishing a satisfactory basis of Dominion-Provincial co-operation, which, for the period of transition, would place the Dominion government in a position to discharge effectively its international and national obligations, and at the same time, place the provincial governments in a position to carry out effectively their obligations and responsibilities.

During the years of the war Canada achieved a higher level of employment and national income than ever before. Effective Dominion-Provincial co-operation is essential if we are to maintain a high level of employment and national income, and to extend social security in Canada.

Proceedings of the Conference

The present Dominion-Provincial Conference opened its proceedings on August 6th of last year. Prior to the opening of the conference, and following months of co-operation with the provinces in the preparation of essential statistical material, a comprehensive set of proposals for a Dominion-Provincial agreement was worked out by the Dominion. These proposals were submitted to the conference at the opening of its proceedings.

The provinces had been invited to make proposals of their own. At the opening meeting certain of the provinces submitted proposals, other provinces made informal statements. It was felt by the provinces that time would be required to study the Dominion proposals, to prepare comments and to suggest

modifications, or, as they were invited to do, to make alternative proposals. To facilitate these ends, a Co-ordinating Committee was established, consisting of the premiers of the nine provinces, three Dominion ministers, and the Prime Minister of Canada. As stated in the report of the Secretary of the Co-ordinating Committee, which was read this morning, the Committee has met from time to time. At the suggestion of some of the premiers, and with the approval of all, its meetings were held in camera. All formal submissions made by the provinces to the Co-ordinating Committee have, however, been made public.

I should like to make it perfectly clear that holding the meetings of the Co-ordinating Committee in camera was in no way due to a desire on the part of any of its members to conceal from the public matters which necessarily were of vital concern to the people of Canada as a whole. It was solely for the purpose of making possible a freer discussion of all issues on their merits. Positions taken in open discussions are, as is well known, often difficult to change though in the light of circumstances change may be advisable.

Modifications of Dominion Proposals

A number of revisions and modifications of the Dominion proposals have, in the light of discussion, been made at the meetings of the Co-ordinating Committee. In the Committee, the Dominion has sought to clarify its proposals as fully as possible, and to answer as completely as possible questions raised by the provincial governments. The Dominion government welcomes this opportunity to present, in summarized form, the complete Dominion proposals as they now stand.

Here I might point out that the fact that the Dominion has from time to time modified its proposals is in itself evidence of its desire to meet, as far as possible, the difficulties with which some of the provinces are faced, and its readiness to go as far as possible to reach a basis of agreement which will be at once fair and satisfactory to the provinces and the Dominion alike.

It is, I believe, all to the good that the exact position of the several governments should now be made known to the public in the words of their own representatives.

I might say that the Dominion doubly welcomes this plenary session in that, while its proposals and position are fully known to all the provinces, the Dominion has still to be informed of the position of some of the provinces, and of the full extent to which there is agreement in principle on the proposals which the Dominion has put forth.

I shall at once give a summary of the Dominion proposals as they now stand.

SUMMARY OF DOMINION PROPOSALS

With a view to achieving high and expanding production, employment and national income, greater social security and a less burdensome over-all tax system, the Dominion is seeking agreement with the provincial governments on the basis of the following proposals. The proposals are interdependent, and should be considered as an integrated whole.

PART I.—FINANCIAL ARRANGEMENTS

The Dominion's main financial proposal is that in return for specified unconditional payments to the provinces the provinces will undertake, for the next three years, not to levy income, corporation and succession duty taxation

with the proviso that any province which wishes to continue to levy succession duties may do so on condition of the Dominion payment being appropriately reduced.

1. The Dominion will, for the duration of the agreement, pay each province a guaranteed minimum annual amount equal to \$15.00 per capita. The minimum payment will be based on the 1941 actual or 1942 estimated population of the province, whichever is the greater. The actual payments to be made in 1947 will be substantially greater than the guaranteed minimum since the annual payments will be raised in proportion to increases both in population and in per capita gross national production based on the average of the last three years. The estimated 1947 payments are set forth in a table which is included in this statement, but which, unless specially requested, I shall not attempt to read. In no case will Dominion payments to a province be less than 150 per cent of that province's annual receipts under its Wartime Tax Agreement. For no province will they be less than two million dollars. The description I have just given of the way in which the payments are calculated is in general terms. The precise method of calculation is outlined in an appendix to this statement.

The table does *not* take account of the relief which would be afforded to provincial budgets by implementation of the Dominion proposals with respect to unemployment assistance, old age pensions, health grants, and public investment.

DOMINION PAYMENTS TO THE PROVINCES

(In millions of dollars)

	Present Provincial receipts from				Proposed Dominion payments to provinces	
	Wartime tax agree-ments	Statutory subsidies	Provincial succession duties*	Total of fore-going	Guaranteed minimum†	1947 As presently estimated‡
P.E.I.	·7	·4†	·1	1·2	2·0	2·0
N.S.	2·9	·7†	·6	4·2	8·9	10·0
N.B.	3·7	·7†	·4	4·8	7·0	7·5
Que.	20·6	2·9	7·8	31·3	50·9	57·3
Ont.	29·0	3·2	12·1	44·3	58·3	64·5
Man.	5·7	1·7	·6	8·0	10·9	11·8
Sask.	5·8	2·0	·4	8·2	13·4	13·7
Alta.	5·8	1·8	·6	8·2	11·9	13·3
B.C.	12·0	1·0	1·3	14·3	18·1	18·1
Total.....	86·2	14·4	23·9	124·5	181·4	198·2

* Average collections in latest five-year period for which data is available, viz:—1940 to 1944 inclusive.

† Excludes interim subsidies of \$275,000 (P.E.I.), \$1,300,000 (N.S.), and \$900,000 (N.B.) which are included in the previous column under Wartime Tax Agreement receipts and which will become statutory upon expiration of the Wartime Tax Agreements.

‡ These amounts do *not* include provincial receipts from the 50 per cent share of Dominion corporation income tax on specified public utilities, or from the provincial taxes on mining and logging profits which are referred to below.

The specified annual payments to the provinces set out in the table will be subject to certain necessary adjustments referred to below.

2. In return for the specified annual payments there would be an undertaking by the provinces not to levy income, corporation or succession duty taxation for the duration of the agreement, or to permit municipalities to do so.

3. If a province wishes to continue to levy succession duties, the succession duty amounts payable by a taxpayer to that province will be treated as a credit to the taxpayer against amounts due under the Dominion succession

duty; the credit will be limited, however, to the amount which would have been payable to that province under its 1946 succession duty rates and conditions of liability. The total annual payments to the province, by the Dominion, under the agreement would be reduced by the amount of such credits.

4. The statutory Dominion subsidies will continue to be paid but will be included as part of the specified annual payments to be made by the Dominion under the agreement.

5. The provinces may tax mining and logging operations either through royalties or taxes on the net profits from such operations. For the duration of the agreement, the Dominion will recognize such levies as an expense deductible from income for Dominion tax purposes.

6. The Dominion is prepared to seek a constitutional amendment permitting delegation of powers from the Dominion Parliament to provincial legislatures, or vice versa. Once an amendment is made, the Dominion Government will request Parliament to delegate to the provinces, for the duration of the agreement, the right to levy retail sales taxes within limits to be specifically defined.

7. The Dominion will undertake, for the duration of the agreement, not to enter the fields of real estate taxation and automobile licenses now exclusively occupied by the provinces.

8. The Dominion will also undertake, for the duration of the agreement, not to increase its special excise taxes on gasoline, amusements or pari-mutuel betting, provided that in the event of a national emergency the Dominion will be free to take whatever steps are necessary to meet the emergency.

9. The Dominion will, in the case of companies whose main business is generating for distribution to the public or distributing electrical energy, gas and steam, pay to the province concerned one-half the Dominion's net corporation income tax collections from such companies, in respect to such business. This payment to a provincial government will be reduced by an amount equal to any taxes which the government of that province levies on such companies.

10. If a provincial government or one of its municipalities takes over a tax-paying corporation, the specified annual payments to that province will be reduced by the amount of the tax loss sustained by the Dominion. This provision would not apply to the companies referred to in the preceding paragraph.

11. Since the Co-ordinating Committee adjourned its proceedings on Friday last the Dominion Government has given further consideration to the suggestion of some of the provinces that the Dominion should withdraw from certain tax fields.

The most important of these, in terms of revenue, is the special 3 cent a gallon excise tax on gasoline imposed in 1941 which currently yields the Dominion about \$30,000,000 a year. The Dominion has made it clear that in view of the financial burdens and responsibilities which it must bear it could only consider withdrawing from any tax field in return for an adequate financial equivalent. In the case of gasoline such an equivalent might be a reduction in the specified annual payments to the provinces equal to the annual amount now being collected by the Dominion from this tax. An alternative equivalent could be withdrawal of the Dominion offer to pay the provinces 50 per cent of the cost of old age assistance for those between the ages of 65 and 69 estimated to cost the Dominion up to \$20 million a year.

If the provinces generally are prepared to offer either of these alternatives, the Dominion would be prepared to modify its proposals accordingly.

Another example of such an alternative might be for the Dominion to withdraw from the amusement tax field in consideration of its not paying the public health grants. The Dominion Government does not suggest this or the other alternatives as in the national interest or in the interest of the provinces; but nevertheless the Dominion would be prepared to consider any proposal along these lines which was desired by the provinces generally and which would not leave the Dominion worse off financially.

PART II. PUBLIC INVESTMENT

1. *Planning grants:* The Dominion will pay any provincial government which so desires one-half the cost, not exceeding $7\frac{1}{2}$ per cent of the cost of the project, of planning provincial, and through the provincial government, municipal public investment projects accepted by the Dominion as subject to timing. This offer will be effective as from a date to be set by the Dominion, and will be limited in the first year after that date to an amount equal to \$1.00 per capita of the population of the province.

2. *Timing grants:* The Dominion will contribute to provincial and, through the provincial government, to municipal public investment projects on a scale and to an amount to be determined by the Dominion and to be announced in January of any year in which in the light of the general employment and economic situation the Dominion considers such assistance to be desirable.

3. *Dominion programme:* The Dominion will extend its natural resources development and conservation projects, and research programme, as soon as the situation respecting labour and materials will permit. These activities, where possible, will be varied in execution in accordance with the general employment and economic situation.

4. *Joint Dominion-provincial programmes:* The Dominion will discuss with provincial governments the formulation of agreements for Dominion assistance to provincial services and projects in the categories outlined in the August 1945 proposals.

PART III. HEALTH

1. *Planning grant:* The Dominion will pay to any provincial government, which so desires, immediately upon completion of the agreement, \$5,000 plus 5 cents per capita of its 1941 population (but not less than \$15,000) to be spent within two years on studies of the requirements of the province in the field of essential medical, hospital and related services. Quarterly reports would be submitted by the provincial governments.

2. *Health insurance:* The Dominion is prepared to contribute up to 60 per cent of the cost of specific services in any provincial health insurance programme approved by the Dominion. Upon conclusion of an agreement, the Dominion is prepared to proceed with discussions on a technical level with any provincial government which wishes to take advantage of this assistance.

3. *Health grants:* For preventive medicine, increased hospital facilities and the development of public health services, the Dominion will pay the provinces conditional grants in relation to General Public Health, Tuberculosis, Mental Health, Venereal Disease, Crippled Children, and will make additional

provision for Professional Training and Public Health Research. The Dominion will contribute 50 per cent to the amounts required to permit the pension age for blind persons to be lowered from 40 to 21 years and the maximum amount paid to pensioners to be increased to \$30 per month and to provide for treatment to prevent or cure blindness. These grants and payments are described at greater length in an appendix to this statement.

4. *Hospital construction:* The Dominion will assist provinces entering a health insurance agreement to meet the need for additional hospitals by lending money at or slightly above cost, secured by the various health grants payable to the provinces.

PART IV. OLD AGE PENSIONS

1. *Aged 70 and over:* The Dominion will institute a system of national old age pensions of \$30 a month payable to everyone at 70 years of age. The Dominion will be solely responsible for administering these pensions. Old age pensions and the other parts of the Dominion social security programme when established will be financed by such modifications of taxation, or by such contributions, as Parliament may authorize.

2. *Aged 65 to 69:* The Dominion is prepared to enter into an agreement with any provincial government to pay 50 per cent of the cost (excluding administration) of pensions up to \$30 a month to those persons between the ages 65 and 69 who need them. The provincial governments would administer these pensions on terms substantially similar to the present Old Age Pension system. In the event of the provinces accepting the alternative proposal respecting taxes on gasoline, this proposal would be withdrawn.

PART V. UNEMPLOYMENT ASSISTANCE

/ In addition to unemployment insurance, the Dominion will set up a system of unemployment assistance under which it will pay benefits equal to 85% of unemployment insurance benefits, to unemployed persons able and willing to work who are not entitled, or who have ceased to be entitled, to unemployment insurance benefits. This assistance will be limited to two years of continuous assistance, but a person will again become eligible for this assistance following an approved period of employment. ✓

PART VI. CONCLUSION OF NEW AGREEMENTS

In the event of a general expression of intention to conclude definitive agreements in accordance with the general terms here set forth, the Dominion will undertake to make every effort to have agreements completed and the necessary legislation to implement the agreements enacted before September 1 of the present year.

The new agreements would come into force on the day following the termination of the Wartime Tax Agreements between the Dominion and the provincial governments concerned (unless an alternative date were mutually agreed upon). The agreements would be for three years, subject to extension for a further period by mutual agreement.

/ The Dominion will pay the provincial governments the hold-back of income and corporation taxes under the Wartime Tax Agreements within thirty days of the commencement of the new agreement. The Dominion will make the specified payments annually in four equal quarterly instalments during the life of the agreement, the first instalment to be paid six months after the commencement of the agreement, and the last instalment to be paid three months after the expiration of the agreement. ✓

No Constitutional Change

In all its proposals, the Dominion has assumed that Canada's federal system of government should be preserved and strengthened. I should like to repeat what I said at the plenary session on August 6, last:—

"We do not believe that unity is to be found in uniformity, in standardization, or in centralization. We believe the unity and strength of Canada are equally dependent upon the soundness and strength of the provinces, and their capacity to discharge their functions effectively. We believe that only when the provinces are relatively secure in their own spheres can we achieve the co-operation among all governments so essential to our country's needs."

My colleagues and I have scrutinized every aspect of our proposals in the light of these general principles. The Dominion proposals will, we believe, strengthen the position of each government in its respective field.

The only constitutional change suggested is the proposal, already mentioned, for the delegation of powers, and with this one exception under which the Dominion is prepared to enlarge the powers of the provinces, none of the Dominion proposals would require an amendment to the British North America Act, or involve any fundamental disturbance of the traditional pattern of Confederation. In this unsettled period of world transition, it would be unwise to seek constitutional change, or to make irrevocable commitments. What we are now seeking is to meet urgent needs, on a temporary basis, by the simplest and most effective means.

Avoidance of Double Taxation

In formulating its proposals, the Dominion government has kept constantly in mind the desirability of double taxation being avoided, and of the best possible use being made of the major fields of direct taxation.

When we speak of the best possible use of tax fields we have in mind more than tax collection costs to governments and taxpayers. We are deeply concerned that Canada's tax system should be efficient in the sense that, in this period of transition, it will impose the least possible discouragement to the expansion of business activity and employment. This is one of the main reasons for the proposal that the Dominion alone should levy Income and Corporation Taxes and Succession Duties, and make in return unconditional payments to the provinces.

Forecast of Tax Policy

Here, may I indicate something of the tax policy the Dominion plans to follow should agreement be effected on the basis of the Dominion proposals.

In respect to the personal income tax, as now levied, the government is prepared to say that, once the Dominion proposals are accepted, and the risk of having Dominion policies nullified by provincial policies having contrary economic effects is thereby avoided, the government intends to make further reductions in the personal income tax. In the same circumstances, the government also intends to reduce the element of double taxation of corporate income with its tendency to discourage risk-taking enterprise. It is intended to meet a part of the Dominion's share of the cost of the broad extension of social security, included in the Dominion proposals, by means of direct personal contributions.

Urgency of Problem

The Minister of Finance has been obliged to delay preparation of the Dominion budget, pending the outcome of the present conference. The preparation of the Dominion budget cannot, however, be much longer delayed. The nature of the budget vitally affects plans for business expansion for years

ahead. The provinces also have their budgetary problems. Within a year, all the war-time tax agreements will have expired. The present uncertainty cannot be allowed to continue.

In its proposals, as they now stand, the Dominion government feels that it has gone as far as it possibly can in the light of its very heavy financial obligations. While we have not shut the door to possible alternatives or adjustments, any such modifications will have to be on the basis of financial equivalents.

If agreement is reached, the Dominion budget proposals will be based on the terms of the agreement. If agreement is not reached, final preparation of the Dominion budget will nevertheless have to be proceeded with immediately. In such case full account will have to be taken of the termination of existing tax agreements with the provinces, and the situation which will then result. The Dominion government will have to use its constitutional powers to the full extent necessary to meet its heavy national and international financial obligations and commitments. There is, perhaps, a third alternative. It may be that at the present plenary session something as yet undisclosed may be proposed which would offer a better solution. In view of the urgency of preparing Dominion and provincial budgets, a decision on any such proposal would necessarily have to be reached without delay.

Once the position of the provinces has been made perfectly clear at this plenary session, if it appears that agreement is possible on basic principles, it is our hope that the Co-ordinating Committee might resume its sittings in order to work out the agreement itself.

Continuing consultation

In conclusion, may I repeat that the Dominion proposals are for a period of only three years, and that they involve no permanent changes in our constitutional or financial relationships. In the event of agreement being reached at this time the Economic Committee might continue as presently established with a permanent secretariat, to facilitate Dominion-Provincial co-operation. The Committee might meet at least twice a year throughout the period of the agreement to exchange information at the technical level and to put its members in a position to advise their respective governments on ways and means of furthering the objectives of the agreement, and on other subjects of mutual and national interest.

The Co-ordinating Committee as presently constituted might remain formally in existence, and might meet whenever it appeared desirable in the general interest.

It would be our hope that further conference and consultation between the Dominion and the provinces, carried on in this or some similar way, would over the next three years bring us close to a permanent solution of the problems of Dominion-Provincial co-operation.

Appendix A

DEFINITION OF THE SPECIFIED ANNUAL PAYMENT TO BE MADE BY THE DOMINION TO A PROVINCE UNDER THE PROPOSED AGREEMENT

1. The Dominion undertakes to pay the Province for the duration of the agreement a guaranteed minimum annual amount equal to Fifteen dollars multiplied by the number of the population of the Province in 1942 as estimated by the Dominion Bureau of Statistics (or at the option of the Province the number of the population in 1941 as shown by the census of Canada). This guaranteed minimum, however, shall in no case be less than 150% of the annual payments made to the Province under the Wartime Tax Agreement (excluding gasoline tax guarantee payments) or less than Two Million dollars.

2. In any year in which the amount arrived at by the following formula exceeds the guaranteed minimum, the amount so arrived at shall be paid in lieu of the guaranteed minimum. The formula: Divide 'the Gross National Product per capita' for each of the three preceding years by the 'Gross National Product per capita for 1942.' Multiply the quotient in each case by \$15.00. Multiply the product in each case by the number of the population of the Province for the year in question. If the result in any of the three years is less than the guaranteed minimum, substitute the amount of the guaranteed minimum. Average the three amounts so arrived at.

3. The calculations referred to in paragraph 2 will be made on the basis of the current Dominion Bureau of Statistics estimates of population and Gross National Product and will be adjusted, when necessary, on the basis of the final Dominion Bureau of Statistics report.

Appendix B

HEALTH GRANTS

For preventive medicine, increased hospital facilities and the development of public health services the Dominion will pay conditional grants to the provincial governments for the following purposes:—

- (a) General public health grant—35c. per capita annually, increased at the end of two years by 5c. per capita per year until the grant totals 50c. per capita. The purposes for which this grant may be used would include research, education and treatment related to cancer and arthritis.
- (b) Tuberculosis grant—\$3,000,000 annually to all provincial governments with a minimum of \$25,000 to each province and the remainder distributed 50 per cent according to population and 50 per cent according to the average number of deaths from tuberculosis in each province over the previous five years. At the end of two years a supplementary grant of \$1,000,000 annually would be made available for ten years to provincial governments able to make effective use of it.
- (c) Mental health grant—\$4,000,000 annually to all provincial governments, with a minimum of \$25,000 to each province and the remainder distributed according to population. This total grant would be increased to \$5,000,000 at the end of two years, \$6,000,000 at the end of four years and \$7,000,000 at the end of six years, if the provincial governments demonstrated they could make effective use of such amounts.

- (d) Venereal disease grant—\$500,000 annually to all provincial governments, with a minimum of \$4,000 to each province, the remainder to be distributed 50 per cent according to the population and 50 per cent according to the number of new cases of syphilis reported in the previous year.
- (e) Crippled children—\$500,000 annually to all provincial governments, to be distributed according to the population or by such other method as may be determined after consultation with the Dominion Council of Health.
- (f) Professional training—The Dominion will spend up to \$250,000 annually in assisting the training of public health personnel.
- (g) Public health research—The Dominion will spend up to \$100,000 annually in assisting public health services.
- (h) Civilian blind—The Dominion will contribute 50 per cent to the amounts required to permit the pension age for blind persons to be lowered from 40 to 21 years and the maximum amount paid to pensioners to be increased to \$30 per month and to provide for treatment to prevent or cure blindness.

PROVINCE OF ONTARIO

MR. MACKENZIE KING: The Premier of Ontario, Mr. Drew.

HON. GEORGE A. DREW (Premier): Before proceeding to state specifically the position of the Province of Ontario, and before commenting on certain of the Dominion Government's proposals which have been placed before us for the first time this morning, I should like to read the opening words of the printed submission of the Ontario government which was delivered to every other government in January of this year. I do so merely to indicate the spirit which has actuated the government of Ontario in all of its appearances at the meetings of the Co-ordinating Committee and at the open sessions of the Conference.

The opening words of our submission were:—

The main purpose of the Dominion-Provincial Conference (1945) is to place the Dominion and the Provincial Governments in the best possible position to use their combined powers for the most effective advancement of the welfare of the people of Canada and the strength of one national economy.

In seeking to attain that objective, our constitutional background must be recognized, and the special considerations which greatly affected the form of constitution under which Canada became a nation must always be borne in mind.

In making its submissions to the Conference, the Government of Ontario proceeds upon the assumption that the future strength of Canada and the welfare of all its people will depend upon the measure of co-ordination and continuing co-operation which can be established between all Governments in Canada and the agencies of those Governments.

While recognizing that each Provincial Government owes its primary responsibility to the people of its own Province, we fully recognize the dependence of the people of every Province on the strength and vigour of the whole nation for their continuing welfare and prosperity. We are also convinced that the strength of our national structure very largely depends upon the strength, independence, and self-reliance with which each Provincial Government is able to undertake its own allotted tasks.

These principles are stated at the outset so that it may be clearly understood that our proposals are made in the belief that they should be equally acceptable in every part of Canada and are in no instance put forward with the thought of giving any special advantage to those who live in Ontario.

That has been the spirit with which we have approached this problem and that is the spirit with which we shall continue to meet in this conference or in any subsequent committee meetings that might be arranged.

Except to the extent that they may be varied by anything said here this morning—and what I say here this morning will be what the other governments already know—our submissions of January last stand as the position of the Province of Ontario, and I state that for the record, so that there will be no reason for any suggestion that if in my remarks this morning I omit any particular subject, the province of Ontario is not putting that subject forward for consideration, because these subjects will all be found in our printed submissions which are in the hands of every government and which were handed to the press in January last.

Before I proceed to state the position which I wish to place before this open Conference I should like to review certain points made in the statement which has just been read to us by the Prime Minister of Canada. I was rather struck by this one statement, and I am quoting now from the printed statement of the Prime Minister:—

The Dominion has still to be informed of the position of some of the provinces, and of the full extent to which there is agreement in principle on the proposals which the Dominion has put forth.

The inference in that statement would appear to be that we all knew the Dominion's position when we came here and that the Dominion is still waiting to hear what we have to say. Now every representative of every government knows that there are statements in this submission of the Dominion government that we have heard for the first time this morning, and that in itself I am glad to see because it is the most convincing evidence of the desirability of the motion I introduced last Thursday that we should return to open Conference.

In the first paragraph of the Dominion government's statement this morning I find these words:—

At the time—

That is, the time when these war-time tax agreements were made:

At the time no one could possibly have foreseen how long hostilities would last, and, least of all perhaps, the full extent of the colossal expenditures the prosecution of the war would involve.

That, of course, is directed towards the emphasis which the Dominion government now places on the necessity for its occupation of the corporation and personal income tax and succession duty fields, in spite of the rigid and binding statutory and contractual obligation which the Dominion government gave in 1942 to return these tax fields to the provinces when the war was over; and that, after all, is the proper course for the Dominion government to take to the extent that any explanation may be offered.

There is one aspect of that which we should remember. Doubtless the explanation is directed not only to the very clear contractual and statutory obligation to return these taxing powers to the provinces, taxing powers which have been theirs since Confederation, and without challenge, until recently; but there is another very good reason why this explanation is given in view of other statements which were made before the Wartime Tax Agreements were signed. When they were first proposed to the Provincial governments the then Minister of Finance and the present Minister of Finance said this in the House of Commons in his budget speech of 1941:—

It is proposed therefore as a temporary expedient, for the duration of the war only, to ask the provinces to vacate these two fields.

Then the Minister of Finance went on to say:—

I should like to emphasize that this is not an attempt to get the provinces out of these tax fields permanently.

Then may I emphasize these next words of the Minister of Finance:—

Furthermore it will be noticed that succession duties are specifically excluded from the proposal which is being made to the provinces.

In the clearest terms, therefore, the then Minister of Finance and the present Minister of Finance indicated that, even though as a temporary expedient only, the Dominion Government was asking for the exclusive occupation of corporation and personal income tax fields, they were excluding succession duties, and the only reasonable interpretation of that statement is that the Dominion government recognized the very much higher right of the provinces in that particular field, and so to-day we have this explanation.

As is known to every government, and as will be known to the public, the Province of Ontario did not need this explanation to make considerable concessions some time ago. Nevertheless, let us take the explanation which is given, that at the time these agreements were signed the duration of the war and its full extent could not have been anticipated. No reasonable man in March, 1942, could have thought that this war would be over in 1945. Cast your minds back. March, 1942, was the very lowest ebb for us in this war. Germany dominated the whole of Europe. Our forces in Africa were threatened with extinction. The Japanese were overrunning Asia. The United States, while helping us enormously, had not yet joined in the struggle. The British Commonwealth and Empire stood alone. Russia had come in by March, 1942, but the statement of Mr. Ilsley was made before Russia came in. The Wartime Tax Agreements were signed in March, 1942, and the remarks I have quoted of the Minister of Finance were made in the spring of 1941, and the tax agreements were signed in March, 1942, in accordance with that statement of the Minister of Finance. By that time Russia was in the struggle, and the United States was in, but although they were both in, the war then for us was at its lowest ebb because, as I have said, Germany was overrunning Europe and North Africa and at that time the Japanese were sweeping through Asia. How anyone at that time could have foreseen the overwhelming and decisive victory which was ours last year I, for one, am unable to see. I only mention that for this reason, that if there is an explanation, the explanation is not to be found in the changed circumstances because the circumstances to-day are much more in favour of the ability of the Dominion government to return these taxing powers to the provinces than they were in March, 1942. We only have to think how fortunate this country is in comparison with any other country in the world except perhaps our friends in the United States.

Every representative of every government knows that some of the proposals which are made to us by the Dominion government here this morning are made to us for the first time, and that is a very healthy sign. But may I also point out that the provinces had not left much doubt as to what their position was in the discussions which have already taken place. There are some variations in the Dominion's proposals this morning in regard to succession duties and the gasoline tax, which do not, however, change the basic proposition that the Dominion government is seeking the occupancy of these tax fields, and to the extent that these new proposals are made this morning, they do not substantially vary the effect of anything that I had prepared as a statement in the light of the position in which things were when we adjourned on Friday last.

It is a little difficult to interpret the meaning of the statement of the Prime Minister on page 13 of the submission which he read this morning. I quote:

The Minister of Finance has been obliged to delay preparation of the Dominion budget, pending the outcome of the present conference.

Then the statement goes on with the suggestion that if we do not reach agreement here—I will quote the exact words:

The Dominion government will have to use its constitutional powers to the fullest extent necessary to meet its heavy national and international financial obligations and commitments.

On behalf of the province of Ontario I think I might properly recall something that is known to the representatives of every government here. Every representative sitting around this table knows that it was on January 6, 1944, that I as the Premier of Ontario wrote to the Prime Minister of Canada, after a number of public statements on the same subject, urging an immediate Dominion-Provincial Conference to prepare for the joint action of all governments in meeting the problems that would arise in the post-war period, and you will recall that the Prime Minister of Canada sent a copy of my letter to the head of each government in Canada as the basis of a suggestion that a Dominion-Provincial Conference should be held.

I only mention that to remind everyone here that, if we are pressed for time, that pressure has not been made necessary by the action of the province of Ontario or by the government of any other province, because every Premier had indicated his willingness to attend such a conference as soon as it would be called.

Since we met last August there have been very useful discussions, and those discussions have led to an understanding both of the financial and of the constitutional position of the provinces, which in many cases was not sufficiently clear at that time.

I am very glad to see in the statement read by the Prime Minister of Canada this morning that the suggestion is made that the Co-ordinating Committee should continue to sit at least once every six months. As may be recalled, that was the suggestion of the province of Ontario. I am not boasting of that fact; it is a simple matter of record. It is also a matter of record that the motion to set up the Co-ordinating Committee was a motion of the province of Ontario. Therefore the combined results of these discussions which are now showing form in these suggestions, which do bring us close together, have come from contributions made by all the representatives of all the governments. I say most emphatically that everyone sitting around this table has contributed some substantial part to the advancement of these proceedings to this point.

One thing I could not fail to notice throughout this statement of the Prime Minister was the repetition of the phrase that the Dominion government is prepared to contribute. The Dominion government contributes nothing. The sooner each one of us, and the sooner every Canadian taxpayer, realizes that, the better it will be for the logical disposition of our problems.

There is no one here who has not read comments in some newspapers and probably there is no one here who has not heard some of the statements over the radio which picture the provincial governments as constantly begging for further concessions from the Dominion government. No provincial government is here as a beggar. Each government here sits around this table as a partner. There is no question of generosity on the part of the Dominion government or of lack of generosity. There is no question of selfishness on the part of the provinces or of lack of selfishness. What we are discussing here is the allocation of taxes paid by the same taxpayers across Canada. What we are seeking is a procedure by which these combined taxes may be channelled into the most effective courses to the advantage of all the people who live in the nine provinces. There is no Ali Baba's cave here in Ottawa. The people who will pay all these

taxes, no matter which government imposes or collects them, are the people who live in Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, with a small additional population in the northern areas, officially represented here, I presume, by the Prime Minister of Canada. With that small additional number in the vast northern areas the taxpayers are the people who live in the provinces. What we are discussing is the way in which, by our combined good will and judgment, we may use the total money the taxpayers are called upon to pay to produce the best results in living conditions, production and security for all these people.

For that reason the government of Ontario puts forward these proposals, not merely on behalf of the people of Ontario, but in the hope that it may be contributing to the possibility of an agreement as to the way in which the heavy burdens of the taxpayers may be relieved, and that this combined form of government known as Confederation may continue as a true federal system.

Having said that, and repeating that what is said this morning is to be taken in conjunction with what was placed before this conference in January last, I shall proceed with the statement which has been prepared for presentation to this open session.

When the representatives of all the governments of Canada met here last August, the Dominion government presented extensive proposals in printed form. Since then those proposals have been varied from time to time and when we adjourned on Friday to meet here this morning, a further revision was being considered. As everyone around the table knows, certain revisions have been made over the week-end by the Dominion government.

While many subjects have been discussed since this conference began its proceedings, it has at all times been recognized that the first requirement for a solution of our general inter-governmental problems is an agreement for the adjustment of taxes and taxing powers. Such new agreement is made necessary by the termination in a few months of the agreements which were ratified in 1942 as the basis for the financing of Canada's combined war activities.

The proposals of the Dominion government seek sweeping concessions by the provinces of their major taxing powers. Although the Dominion government had given the most unqualified assurances, assurances to which I have already referred, prior to the signing of the agreements in 1942, that there was no thought of continuing to occupy the fields of corporation and personal income taxes after the war, their proposals now rest upon the basic proposition that they must have the exclusive occupancy of those fields. Quite apart from the merits of their proposals, it is essential that this fact be borne in mind if the extension of the concessions, which are now sought by the Dominion government, are to be kept in true perspective by the people of Canada. Furthermore the Dominion government now asks for the exclusive occupancy of the field of succession duties.

That is modified to some extent this morning, but modified in a limited form which does not vary the principles set forth.

This is a new concession which the Dominion government expressly stated it was not seeking even during the emergency period of the war agreements. The Dominion government also proposes that it remain in other fields of direct taxation which it never at any time entered until the recent period of emergency war financing..

It must at all times be remembered that to carry out many of the most important legislative and administrative duties affecting the daily life of our people, such as the responsibility for education, personal health, the administration of justice, municipal affairs, the construction and maintenance of highways, the development and supervision of resources, agriculture, public

welfare, labour relations, and the wide variety of other matters affecting the welfare and happiness of all our people, the provincial governments were given the power to raise taxes in the field of direct taxation so that they might carry out those duties. To fulfil its responsibilities of a national and international character, the Dominion government was given the right to raise taxes in any field. But the provisions of the British North America Act in regard to the raising of money would have been meaningless unless it was clearly understood that the provincial governments had priority in the field of direct taxation. Without such a clearly implied interpretation of taxing powers, the provincial governments would never at any time have been sure of any free fields of taxing powers to carry out their many tasks which are of infinitely greater personal concern to most Canadians in years of peace than the things which are done in the wider field by the Dominion government although the magnitude of those national responsibilities is fully recognized by everyone.

The concessions now sought from the provinces must be regarded in that light, and it must also be remembered that the immediate problem before us does not include the health measures put forward in very general terms by the Dominion government.

This comment I specially emphasize, in view of the proposals put forward this morning.

They are to be financed upon an entirely separate basis and it has been made quite clear to those attending this Conference, although perhaps not so clear to the public, that the financing of those measures is not an incident of the financial arrangements to be covered by the basic agreement. While the health proposals of the Dominion Government have not yet been sufficiently defined to arrive at exact figures, the Dominion Government has suggested a plan under which the health measures and old age pensions would be financed by an overriding additional income tax which has been set at figures varying from 3 to 5 per cent on all incomes, and also a poll tax of perhaps \$10.00 to be paid by everyone of 16 or over. As stated in our earlier brief, this very important subject is one for separate study, and also very careful consideration of the willingness of the people of Canada to assume this heavy new additional tax burden, imposed upon a basis which in the past has been regarded as very unsatisfactory.

The Dominion government is not, as this statement says, giving something. The Dominion government is merely paying that out of this new form of taxation. It will turn over certain of these new tax burdens for that particular purpose. That is all it means.

In any event it must be borne in mind that the present financial proposals of the Dominion Government now before us do not include in exact terms the provision of funds for the carrying out of the health proposals in their present or any revised form.

The crux of the problem we are seeking to solve is relatively simple. The solution however is far from simple. The Dominion Government proposed that in return for the vacation by the provinces of their most important and flexible sources of revenue, together with the continued joint occupancy of other direct fields by the Dominion Government, an annual subsidy would be paid to the provinces on the basis of a \$12.00 per capita minimum payment which would be varied by a formula in which Gross National Production was to provide the variable factor. There would also be an undertaking to carry out certain obligations in the field of social security and public works.

Following the meeting of the Co-ordinating Committee in November and the subsequent statistical research carried out by the Economic Committee, it became apparent that the subsidy payments offered in return for the con-

cessions which the provincial governments were asked to make, were inadequate. It was for that reason that the Dominion Government submitted revised proposals to the Co-ordinating Committee in January. We now have those new proposals before us still further revised during the past week.

The new proposals use a minimum per capita figure of \$15.00 but adopt a different formula which means that the increase is considerably less than \$3.00 per capita except in the unexpected event of returning during the life of the agreement to the minimum basis. Actually the present per capita increase, resulting from this new formula, would be less than 50 cents per capita, except in the case of British Columbia and Prince Edward Island to which much higher per capita payments have been offered. This however, is merely the mathematical aspect of the problem which it should be possible to work out without much difficulty once there is agreement upon certain vital principles which must be determined before the arrangements between the provinces can be reduced to exact dollars and cents.

This open discussion, of which the public will have full knowledge, should carry us a long step forward toward a basic agreement in regard to the financial arrangements upon which the related responsibilities of all governments must rest. Much has been accomplished at the meetings which have taken place. The exchange of statistical details, the frank discussion of the special problems of the several governments, and an extended examination of the many and changing proposals put forward have resulted in the clarification of the principles in issue, which principles must be settled before agreement can be reached here as to the terms of the financial arrangements to be submitted for approval to the legislative bodies for whom we appear. At this Conference we are merely the draughtsmen of a proposed agreement upon which they will be called to pass judgment. Whatever we do at this Conference is only a preliminary step toward obtaining general agreement from the elected representatives of all the nine provinces in both the Dominion and provincial legislative bodies. For that very reason it will greatly further the possibility of such ultimate agreement when we now have the opportunity to state those principles in public so that the people of every part of Canada, who in the end must be satisfied with the wisdom of the course which is to be followed, may have the opportunity to express their own opinions with full knowledge of what is actually under consideration. Such an expression of opinion is essential as we seek to interpret in legal terms the wishes of those whom we serve.

One principle upon which the Ontario Government has been insistent from the outset is that double taxation in any field should be avoided. Our earlier proposals were based upon the proposition that the Dominion Government should carry out its undertaking to vacate the fields of corporation and personal income tax to the extent required by the provinces. It was pointed out that no double taxation would result from this, and no extra expense would be incurred if the same arrangement were adopted which worked so well before the war when one collecting agency collected taxes and then made the payments to the governments in proportion to the taxes which had been imposed.

I was interested to see reported in the press that the very same statement was put forward by the Premier of British Columbia in the British Columbia legislature this year.

The Ontario Government is still of the opinion that the proposals put forward in its printed brief, and submitted to this Conference, do offer a satisfactory basis for a temporary agreement, combining the full legislative, administrative and taxing powers of the Dominion and the provincial governments in such a way as to produce the best results for all the people of Canada.

Nevertheless the Ontario Government said very definitely to the other governments at the meeting of the Co-ordinating Committee last January that, recognizing the wide divergence of opinion upon this subject, and determined to let nothing stand in the way of finding some common ground before the expiration of the 1942 Tax Agreements, the Ontario Government was prepared to vacate and to rent for an annual cash payment as proposed by the Dominion Government, the fields of corporation and personal income taxes for the term of a Transitional Tax Agreement.

I should emphasize again that the position of the Ontario Government was clearly set forth in January last, and was known to every government here.

That is the position of the Ontario Government to-day and it will enter into such an agreement subject to the following conditions:

1. The Dominion Government will vacate and undertake not to re-enter during the term of the agreement the following fields of taxation:

- (a) Succession duties.
- (b) Gasoline tax.
- (c) Amusement tax.
- (d) Race track pari-mutuel tax.
- (e) Security transfer tax.
- (f) Electricity.

and will recognize priority of provincial taxation with respect to mining and logging operations.

2. The Dominion Government will give a definite undertaking not to enter any field of direct taxation other than personal and corporation income taxes, for the life of the agreement.

3. The subvention holdbacks, made up of money deducted from time to time by the Dominion Government under the Wartime Tax Suspension Agreements, and amounting in Ontario's case to \$28,964,039.54, will be paid to the provincial governments.

4. It shall be clearly established by explicit terms in the new agreement that in agreeing to rent the fields of corporation and personal income taxes, during the term of the agreement, the provinces shall not be deemed to have surrendered, abandoned, or given over to the Dominion Government, any of the powers, rights, privileges or authority vested in the provinces under the terms of the British North America Act, 1867, or any subsequent Act of the Parliament of the United Kingdom, or otherwise to have impaired any of such powers, rights, privileges, or authority.

5. The Dominion Government will make available to the provincial governments and municipal councils foreign exchange required to meet their existing external obligations in the United States at parity of exchange.

6. The Dominion Government will assume the full cost of relief for unemployed employables.

7. The Dominion Government will assume the full cost of old age pensions and pensions for the blind.

8. The statutory subsidies payable to the provinces for their surrender of customs and excise duties under the British North America Act, shall not be deducted from the annual rental payments to be paid to the provinces.

9. Following the ratification of the new agreement—and I may say I attach particular importance to this—steps will be taken immediately by the Co-ordinating Committee, with the assistance of the Economic Committee and such other assistance as may be deemed advisable, to conduct a thorough examination of the whole Canadian tax structure for the purpose of establishing a new and revised system of taxation which will leave clearly defined and clearly divided taxing powers to the Dominion and provincial governments.

10. The Dominion Government will undertake that if within the term of the new agreement, a satisfactory basis is not established for an improved system of taxation, it will reduce its taxes on corporation and personal incomes sufficiently to enable the provinces to re-enter those fields of direct taxation upon the termination of the agreement now under discussion.

This summary of basic principles does not refer to many subjects which have been placed before the Conference and which require consideration. It is hoped as I said before that it will not be suggested anywhere that any subjects calling for attention have been ignored or have been disposed of one way or the other by this Conference or by the Co-ordinating Committee simply because they are not referred to now in detail. They are not amplified at the moment because the action to be taken in regard to them will depend upon the financial arrangements which are made.

There is good reason to believe that if agreement can be reached in regard to the principles underlying the financial arrangements, all other problems can be settled very quickly. If we can agree upon the basic principles, it will be possible then to return to meetings of the Co-ordinating Committee and doubtless sub committees would be set up to deal with each particular subject. The first task before us therefore is to determine the basis upon which agreement can be reached in regard to the financial details.

The Ontario Government suggests the following formula as the means of determining the annual rental to be paid by the Dominion Government for the temporary occupation of the fields of corporation and personal income tax.

In presenting this formula the Ontario Government submits that until the balancing factors are determined by way of principle the basic figure cannot be settled with any arithmetical accuracy.

There would be a determined minimum per capita payment which, for convenience, can now be described as "X". The total annual rental to be paid by the Dominion Government to each province would be "X" dollars multiplied by the Gross National Production per capita for the year before the payment, divided by the Gross National Production per capita for the year 1941, multiplied by the population of the province for the year preceding the rental payment. The minimum annual payment shall be "X" dollars multiplied by the population of the year preceding payment or of 1941 whichever is the greater. This may be set out in the following algebraic form with the preceding year being referred to as 194y:

$$\begin{array}{l}
 \text{"X" x } \frac{\text{G.N.P. per capita 194y}}{\text{G.N.P. per capita 1941}} \text{ x 194y population} \\
 \text{subject to a minimum payment.} \\
 \left. \begin{array}{l} \text{"X" x 194y population} \\ \text{or} \\ \text{"X" x 1941 population} \end{array} \right\} \text{whichever shall be greater}
 \end{array}$$

In spite of the algebraic problem that appears from reading it over, I suggest that an examination of the formula set out in the mimeographed copies of the statement placed before every delegate to this conference will show that it is a simple formula which will tie the annual rental payment to the changes in population and in gross national income, and also to the actual value of the dollar in a way which will make that payment approximate the relationship which this tax would bear to the provinces' own revenue if they had retained their taxing powers.

The actual dollar payment to be substituted for "X" can only be settled accurately when there is agreement in principle as to what tax fields are to belong to the respective governments, what further considerations are to be balanced against such allocation of taxes, and what administrative responsibilities the governments are to assume. When agreement is reached in principle on these points, the substitution of a definite dollar value for "X" becomes a relatively simple problem in arithmetic.

When the Ontario Government made it clear to the other governments last January that it was ready to vacate temporarily and to rent for an annual payment its established taxing powers in the fields of personal and corporation income tax, it did emphasize that this could only be regarded as a temporary measure and that before the expiration of these new agreements, a readjustment of taxing powers must take place which would leave each government in assured possession of its own taxing powers for its own revenue requirements and not dependent upon any system of subsidy payments. In the meantime however double taxation must be avoided and the only way that this can be achieved, and at the same time the only way that the provincial governments can retain any pretence of financial autonomy, is for the Dominion Government to retire from all the minor fields of direct taxation. While those taxes are important to the provinces, and are of much more importance than the amount of money involved, it should be remembered that the total collected in all these fields by the Dominion Government is a relatively small fraction of the amount which they collect in those fields which the Government of Ontario has agreed to make available to the Dominion Government under the rental terms which we have proposed.

It will be well to keep the value of all these taxes clearly in perspective. From the incomes of private individuals and from corporations, the Dominion Government collected in Ontario alone last year \$736,126,111. Before the war the Dominion Government divided the fields of personal and corporation income taxes with the provincial governments. Those were the fields of taxation in regard to which the Dominion Government gave its solemn contractual and statutory undertaking in 1942 to reduce its rates of taxes by such an amount as would enable the provinces again to use the income tax and corporation tax fields after the war, and in particular to reduce its rate of tax on corporation incomes by at least ten per centum of such incomes. In return for the complete withdrawal from these major taxing fields, which, including succession duties, were worth \$748,320,240 in Ontario alone last year, the Dominion Government now proposes to pay to the Government of Ontario a subsidy which would, according to its own figures, be worth approximately \$64,000,000 this year.

The Ontario Government stated in January, and repeats again now, that it is prepared to rent the personal and corporation income tax fields provided that the Dominion Government will vacate the remaining fields of direct taxation in accordance with the conditions already stated. What this amounts to in money can be seen from the fact that the Dominion Government collected last year in the whole of Canada \$1,538,563,425 from these two major taxes alone, whereas it collected less than \$75,000,000 in the whole of Canada from all the other direct taxes which the Dominion Government entered for the first time during the war. It is these minor fields of taxation which they are now asked to vacate so that double taxation may be avoided and some measure of financial responsibility remain in the hands of the provincial governments. In making these proposals Ontario has sought to avoid double taxation in any field and to reach the basis of an agreement which would provide some hope of relief to the taxpayers of Canada. It has insisted that in fact as well as in name provincial administrative authority be

assured because without that authority based upon some measure of financial autonomy, there would be Unitary and not Federal Government in Canada, no matter what it may be called.

This nation has grown strong, has survived the most devastating wars of all history, and has risen to the stature of a nation of world importance, under a system of federal government established by our Constitution. The historic rights of our people, local traditions, customs, and jealously guarded rights, to say nothing of that very freedom which we fought as a nation to save, are all part and parcel of that system of government. Money alone is not the issue we are settling here. We have no mandate from the people of Ontario, whom we have the honour to represent, to barter away their long-established rights. We recognize the tremendous needs of the Dominion Government to meet its financial obligations. The Government of Ontario, and the governments of all provinces, have their important needs as well which cannot however be measured alone in dollars. The Ontario Government wishes to make sure that it will have the money needed to meet its actual obligations to the people it represents, no more, no less. It also insists upon freedom of action to carry out its own responsibilities. And that is what it was elected to do. I should imagine there would be no criticism of my statement that that is what every government here was elected to do.

The mere assertion over and over again of belief in the federal system is not in itself enough. Unless those of us who are gathered here are prepared to substitute some other system of government, then we must preserve the federal system in fact as well as in name. The fundamental point in issue in this respect, was very simply and very well stated by the Premier of Manitoba in these words:—

If there is going to be a federal system there must be fiscal autonomy and if there is to be fiscal autonomy there must be real and not illusory taxing powers.

That is a principle to which the Ontario Government attaches the utmost importance. If the provincial governments were to accept the Dominion proposals as they stand, there would be no clear field of taxation for the provincial governments and we should have done nothing to avoid duplication of taxation as a result of our deliberations here. The Dominion Government would not only be imposing double taxation in fields which have been occupied by the provinces alone in the past, but it would be free to enter other fields of direct taxation in such a way as to make the supposed fiscal autonomy of the provinces a mere illusion.

The whole system of subsidies is wrong and should be brought to an end just as soon as a complete and exhaustive analysis of our tax structure can be carried out for the purpose of establishing a new tax structure in Canada. But in the meantime, agreeing as we do to give the Dominion Government full occupancy for a limited period of by far the most important and highly developed fields of taxation, we must insist that the dangers inherent in such an arrangement are reduced as much as possible by assuring to the provincial governments a real measure of fiscal autonomy, along with freedom to carry out their own very heavy responsibilities with some measure of self determination as to the nature of their activities.

The dangers which we see in too great centralization of power are no mere figment of the imagination. The situation was very simply stated by Jensen who is a well known authority on this subject in the United States. This is what he said in his book *Public Finance*:—

Without some measure of independent power to tax on the part of the state governments, the latter would become mere administrative units of a unitary national government.

The same author in another book, *Government Finance*, had this to say:—

Subsidies, here defined as transfers from the central to the intermediate or local governments, merely as devices for balancing intermediate and local budgets in normal times, should not be tolerated; and as devices for aiding the latter in emergencies they should be scrutinized with the utmost care. They tend to weaken the responsibility of the receiving governments by making them clamorous beggars at the door of the federal government.

The reason we use quotations from recognized textbooks on this subject, which are published in the United States, is that the federal system which we have is similar to, and to some extent was founded upon, the system of the United States. Their experience has been largely our experience; and therefore every argument put forward by a man of recognized standing is an argument which might well be considered by those of us who meet here. I think it is safe to say that every recognized authority on the federal system of government in countries of large areas, such as Canada and the United States, has disapproved in the strongest terms of such proposals as those we are asked to accept. Nor is it necessary to go outside of Canada for emphasis upon the dangers inherent in a system under which one government collects and another becomes little more than the local paymaster for the other. Neither the proposals now made by the Dominion government nor the dangers inherent in those proposals are in any way new. This is no new deal for Canada. This is a return to a dangerous situation which in the past has been proved dangerous wherever it has been tried. I would recall that prior to another Dominion-Provincial Conference almost sixty years ago—and I mention this to emphasize that this problem is not a new one—a man whose words may well be remembered by every Canadian, of whatever political persuasion, had this to say, on this very subject, in the most emphatic terms. This is what Sir Wilfrid Laurier had to say about centralization of power and subsidy arrangements of this kind:

In a nation such as ours, with a heterogeneous population, separation of power is indispensable. To govern a people composed of heterogeneous elements, the separation of power is absolutely necessary. I will go farther. I would say that even to govern a people composed of homogeneous elements, where those people are spread over a vast territory, in that case also the separation of power is necessary. In that case legislative union would lead of necessity to tyranny. It is only a federal union which could assure civil and political liberties. . . .

And now I emphasize these particular words of Sir Wilfrid Laurier:

It is a completely false principle that one government should impose taxes and another government spend the revenue therefrom. This will always lead to extravagance.

It is because we wish to stop the obvious invitations to extravagance that we do want to return to the proper basic concept of the federal system and also to avoid duplication of taxation.

Warning against the same dangers as were emphasized by Sir Wilfrid Laurier so long ago, was given in a recent editorial in the *Winnipeg Free Press* in these words:

All Canadians must face the very dangerous theory inherent in all this and now affecting huge sums of taxpayers' money, namely, that one government in Ottawa should collect money, without any definite limit, and hand it over to governments which can spend it without the responsibility of collecting it, without answering directly to the taxpayers who provide it.

That quotation, I believe, very clearly sets out the danger we have sought to express, and which has been emphasized by the leading exponents of democracy.

It is because of this dangerous theory, which has in fact usually proved fatal to the federal system wherever it has been adopted except to a very limited degree, that the Ontario Government insists that double taxation be avoided, that there be free fields of taxation for the provincial governments, and that the principle be accepted that after the study and inquiry which will be possible during the life of these new agreements, the subsidy system will come to an end and that we will return to the true federal system with clearly defined and clearly divided fields of administrative responsibility as well as taxing powers to support those responsibilities.

Of the six minor fields of direct taxation which the Dominion Government has entered during the war years and thus caused double taxation in those fields, two call for special comment.

The occupation of the field of gasoline tax by the Dominion Government is particularly open to objection because the gasoline tax has always been associated with the use of the highways which are built and maintained by the provinces. The invasion of this field by the Dominion Government and the double taxation which now results, has added a heavy burden not only upon the private automobile owner, but even more upon those using the highways for the operation of commercial vehicles.

Every province is called upon to maintain an extensive and costly highway system. They have incurred large capital obligations for highway construction. Because it is such an important source of revenue for the construction and maintenance of provincial highways and also because of its direct relationship to the use of the transportation systems maintained by the provinces, there are special reasons, in addition to the principles already discussed, why the Dominion Government should be entirely out of the field of gasoline tax.

The Dominion Government has been very insistent that it should have the sole occupancy of the succession duty field along with those of personal and corporation income tax. It is extremely difficult to find any reason for the insistence upon this point.

And now, as I discuss the succession duty field, may I repeat something I said before in order to correct what, on the official record, may seem a little confused. The arguments which have been put forward by the Dominion Government in regard to the sole occupancy of the succession duty field are something which apparently have only occurred to them in very recent times, because, with the tremendous burden of war obligations upon them, it was not suggested at the time the war taxation agreements were first proposed, or at the time they were drafted and signed, that there should be any suggestion of the exclusive occupation of that field, or certainly of the exclusive occupation of that field after the War Taxation Agreements came to an end. And so, with apologies, I am going to repeat, because I believe it is important for another reason I mentioned before, the words of the Minister of Finance in 1941, when these War Tax Agreements were first proposed. I am quoting his words:

It is proposed, therefore, as a temporary expedient for the duration of the war only, to ask the provinces to vacate these two fields. I would like to emphasize that this is not an attempt to get the provinces out of these tax fields permanently. Furthermore, it will be noticed that succession duties are specifically excluded from the proposal which is being made to the provinces.

We are told this morning that no one could anticipate events, and as the date of this statement, and the date of the agreement, might lead to a slight confusion with my earlier statement, I wish to clarify it now. When that statement was made by the Minister of Finance, that they had no thought of seeking the continued occupancy of this field and were specifically excluding succession duties—and that was on April 29, 1941—Canada and the nations of the British commonwealth and British empire stood alone against the axis powers at the very peak of their military strength. If the Dominion government did not expect to need it then, I find it difficult to understand today how it is so greatly needed now, when we have emerged from this war strong, vigorous and better able to carry the load, no matter how heavy it may be, than any other nation in the world.

The tax agreements were signed in March, 1942. By that time Russia had been brought into the war by the German attack in June, 1941. The United States had ended the period of vital, and tremendously important, assistance and was our comrade in arms. But in spite of the accession of the forces with which we were associated then, in the common cause of these mighty nations, the war, as I said before, was at its lowest ebb in March, 1942. Europe was overrun, the forces in Africa were threatened with extinction, the Russian armies were driven far back into their own land; Japan was overrunning Asia; and I say again that no one who balanced the dreadful arithmetic of war at that time had nearly as much reason to expect a return completely to the provinces of the tax fields they had occupied as could be expected today.

Why is it important now? That is a question that may very properly be asked. It is important for this reason, that we are asked now to vacate these powers, and one additional power, as well as to permit the joint occupancy of other fields, and we are asked to do that now for the three-year agreement with the same assurance that we got in 1941 and 1942. Are these heavy burdens of the Dominion government, for which the occupancy of these fields now seem so necessary, going to terminate by 1949? Think of it. These heavy burdens are burdens which are going to go on for years, and I have heard no suggestion, from any representative of the Dominion government, that they expect that in 1949, when these new agreements terminate, we shall have so reduced the burden of the obligations of the Dominion government that what they find necessary to-day will be unnecessary then.

It is in view of that fact, in view of the experience of all the governments in relation to the assurances of 1941 and the contractual undertakings of 1942, and what is before us to-day, that on behalf of the government of Ontario I do place the utmost emphasis upon the need for immediate steps to be taken to examine our whole tax structure so that it may be modernized, streamlined and made efficient; and that when this traditional agreement, which becomes necessary through the limitation of time available to us, does come to an end, every government within this federal system may be autonomous in fact as well as in name, and may have its obligations clearly and amply defined, and may at the same time have available to it tax fields which are adequate and which it knows will remain available to it, and which it can establish as its own tax fields by appeal to the courts if necessary.

The reasons why the Government of Ontario regards succession duties as something coming particularly within provincial jurisdiction were set out in the brief presented to this Conference in the following statement:

During the recent war, the Dominion Government introduced succession duties for the first time, although the Government of Ontario had enjoyed the exclusive occupation of this field continuously since 1892. As succession duties bear a direct relationship to "property and civil

rights", they have always been regarded as a form of taxation reserved for the provinces. In many cases the creation of large estates, which are the major source of the Province of Ontario's succession duty revenue, parallels the depletion or using-up of natural resources. As has been pointed out, the conservation, replacement and development of our natural resources is a provincial responsibility. Succession duties enable the provinces to recoup part of the expenditures of the provincial governments on the development of their natural resources and to provide funds for protecting and conserving those resources and opening up new areas for development.

There is another reason why succession duties are logically the direct concern of the provincial governments. The laws relating to wills, to inheritance, and to the various legal aspects of the transmission of property are provincial laws.

In no province has this a more important bearing upon the effect of proposals of this kind than in the province of Quebec, because, in that province, there are traditional rights, as has been pointed out in the brief presented by the province of Quebec. But every province, we should remember, has its own traditional views on the question of property rights, and without any reflection on anyone I have no hesitation in saying that the mandate by which we represent the government of Ontario here to-day is a mandate to preserve the principle of private ownership and the protection of property within reasonable limits, subject to proper taxation both in the field of current taxes and in the levy of succession duties. And I should think there are very obvious reasons why the provinces might be reluctant, quite apart from the money involved, to give up that field in respect of which they must pass the laws that will determine the rights of people in regard to the transmission of that property. Succession duties are entirely different, and this has an important bearing upon the relation of succession duties to corporation and income taxes which are taxes on the annual movement of money. Strictly, succession duties are not a tax at all. The imposition of succession duties is a capital levy upon capital assets, and for this reason they have a very direct bearing on the property and civil rights of the people in every province. These property and civil rights, under our constitution, are within the exclusive and continuing jurisdiction of the provincial governments.

The Minister of Finance did say that if they obtained sole occupancy of this field, the Dominion Government expected to collect more from estates than could be collected by the Dominion and provincial authorities combined. Even with that explanation of their intention it is hard to understand the importance attached by the Dominion Government to succession duties. For the whole four years, since the Dominion Government entered this field, they have collected only \$37,442,000 altogether, of which \$16,977,898 was collected in Ontario, or in other words an average of a little more than \$4,000,000 a year. Even if the Dominion Government were to increase the amount collected from this source substantially above what has been collected by the Dominion and provincial governments combined, it would still receive a relatively small revenue in this way as compared with the very large revenues received from the two major tax fields which Ontario is prepared to vacate if the Dominion Government will avoid double taxation in the other fields.

The argument has been advanced that it is impossible to negotiate reciprocal agreements which would avoid double succession duties unless the Dominion Government is the sole occupant of this field.

May I tell the conference something that the province of Quebec already knows through the agreement we have with them.

Ontario has already demonstrated that it is possible to avoid double succession duties. We have enacted legislation which eliminates multiple duties and now extends to the United Kingdom, to all British Dominions, and to states in the United States of America, the same reciprocal arrangements as have already been made between the provinces of Quebec and Ontario, which is working very satisfactorily for Ontario and, I hope, for Quebec as well. It also provides for further extension of these reciprocal arrangements to other jurisdictions by order-in-council.

So long as the provinces of Canada will take the necessary steps to establish reciprocal arrangements within Canada to avoid duplication of succession duties, and will take some steps to make it possible to establish reciprocal arrangements outside, there is not one thing the dominion government can do in that field which cannot be done just as effectively by any province in Canada.

Another argument put forward by the Dominion Government is that unless succession duties are collected by the Dominion Government alone, duties may be imposed in a haphazard way at widely differing levels and individual inequality result. Here I have paraphrased their own words.

Let us examine what that means. If that argument is cogent in relation to these duties, it applies with equal force to others. It simply means that the dominion government takes the position that if, under the taxes which the provinces have the right to impose, there are inequalities, then they should step in and ask for the sole occupancy of that particular field in order that they may establish uniformity. They do not say so in express terms, but I for one have not been able to draw any other conclusion from these words.

While no real evidence was offered to support this contention, that inequalities might result, even if that were so—and it is so—in relation to other tax fields which the provinces have occupied since confederation and will continue to occupy, it hardly seems a reason for handing over a tax which is otherwise a tax or levy peculiarly within the right of a provincial government. This argument in principle means that even if the provincial governments have the exclusive right to collect any particular tax they should abandon that tax to the Dominion Government if it can be shown that there is likely to be lack of uniformity in the level of the tax imposed in different provinces. That would indeed be the end of Confederation.

For the reasons already stated the Ontario Government has no intention of vacating a field which is so clearly one of provincial jurisdiction, and the only way that the Dominion Government can end the double taxation which it so strongly condemns is to vacate this field which it has so recently entered, and from which it has collected so relatively small an amount of money.

I return to the proposals placed before us this morning, and I do say that I for one, on behalf of the government of Ontario, welcome the revisions which have come forward—and when I speak of these revisions I am not speaking of any particular revision with regard to succession duties alone but with regard to the combined effect having regard to the indication by the dominion government that, for a financial return, they are prepared to abandon or to permit joint occupancy of certain fields.

There are substantial variations in principle to that extent, and to the extent that there are (and there is an indication of willingness on the basis of compensation to step out of those fields), the province of Ontario welcomes the new proposals.

In saying that, may I emphasize this point. At no time, either at the conference last August, at the meetings of the Co-ordinating Committee, or otherwise, has the Ontario government haggled about the amount of money to be paid. Its position is simply that for the transitional agreement it wants an

amount of money which will make it possible for it to carry on its obligations—no more and no less. It is for that reason that we do not give the exact figure for X, nor do we present a formula by which X, can readily be determined. It can very quickly be determined once we agree on the principle by which the balance of responsibilities and the balance of taxing powers are to be set side by side. Until we have agreed on that, there is no statistician who can accurately compute what that figure should be, and any argument about the figure itself is in advance of the knowledge of the necessary component factors to resolve the arithmetic problem presented. We have not haggled and we do not haggle now about the amount of money.

We did make it clear in January, as we have done again now, that in being prepared to take the position we do with regard to the occupancy of these great and indeed overwhelming fields of taxation—corporation and personal income tax fields—we would suggest that the advantages we gain and the advantage the dominion government loses by the vacation of other fields should be taken into consideration in arriving at the actual dollar value of the figure X.

In view of the fact that all the provinces, as I understand from their briefs presented at various times, have indicated their willingness to make available to the dominion government the enormous revenues from personal and corporation taxes, the way is now open to us for an agreement which will allocate those taxes in a manner that will be fair to all Canadians and to the people of all parts of Canada. That can be done provided the dominion government will now itself take the steps necessary to avoid the very double taxation against which it has been arguing so strongly and, may I add, so properly. It can end this duplication entirely—duplication caused by its entry into these fields; and I am not questioning the entry into these fields at the time it took place. I say, it can end this duplication entirely by vacating these minor fields of direct taxation which it now occupies, and giving an undertaking that it will not create double taxation in any other field of taxation for the term of the new agreement.

If these principles are accepted by the dominion government, the government of Ontario and all other governments here will be able to reach an agreement without delay through the agency of the co-ordinating committee, the economic committee, and special committees appointed to deal with various subjects which need consideration, and we shall soon have before us satisfactory terms for a transitional tax agreement which can be laid before our respective legislative bodies for their early approval.

When you examine the position which emerges here this morning, in this first open presentation of what has already largely been before the co-ordinating committee on behalf of all governments, it is seen how very close together we are in basic principles; and if the dominion government will follow its own argument to avoid double taxation in these six minor fields of direct taxation, then we can achieve agreement to-morrow and start the committees working on the details to lay before our legislative bodies.

I for one cannot see any reason why that cannot be done.

The importance of reaching such an agreement is very much in the minds of all Canadian taxpayers who very naturally are becoming increasingly concerned about the heavy burden of the accumulated taxes of the war years and are looking for relief from tax duplication of every kind. The security we are seeking to offer every Canadian must rest upon some measure of security for the Canadian taxpayer.

Before closing these remarks it perhaps should be said again in this open Conference that the Ontario Government has at all times expressed its belief in the principle of fiscal aid to those provinces which from time to time require

special financial assistance and that Ontario which proposed the setting up of a National Adjustment Fund for that purpose, keeps that proposal before this conference.

Some question has been raised about the administrative organization suggested by the Ontario Government. We are not wedded to the particular form we put forward. We were simply asserting our belief in the principle that there should be in Canada, for reasons which have been clearly established, a national adjustment fund administered equitably and in such a way that those provinces which have not that wide latitude and flexibility of taxing powers possessed by certain other provinces will not be without some freedom to meet unusual conditions which, because of the limited aspect of their economy—I mean limited in the particular nature of the economy—do present special problems.

I wish it clearly understood that while we suggest one form of administrative body, what we are concerned with is the principle of fiscal need, and the Government of Ontario is prepared to enter into an agreement for the administration of such a fund by any system of administration approved by this conference.

The objective of the Ontario Government here, in its presentation of these proposals, which as I said before are to be taken side by side with the printed proposals presented in January, and which to some extent they do modify, is to eliminate all duplication of taxes and overlapping of public services, which not only lead to inefficiency of administration but, as was pointed out by Sir Wilfrid Laurier, lead also inevitably to the wasteful spending of public funds.

There is no surer and no better way to reduce taxation than to avoid all tax duplication and to insist upon the right and the responsibility of every government to raise those funds which it is called upon to administer within our constitutional structure. It is our hope, while we make these proposals in no rigid attitude, that the proposals we have put before this conference will help in finding a way for this to be done to the best advantage of the people of every part of Canada.

Mr. DUPLESSIS: Mr. Chairman, in view of the fact that it is now a quarter to one, if there is no objection I would ask that the conference adjourn now. and if it were agreeable to all we might meet at a quarter to three instead of three o'clock.

Mr. MACKENZIE KING: The House of Commons meets at three o'clock to-day and, after a vacation of several days, I rather think it will be necessary for all the federal ministers present here to be in the house when it meets at that hour. I question the wisdom of resuming before three o'clock. In fact, I was about to suggest that we might continue here until a quarter past one, meeting a little later in the afternoon.

Mr. DUPLESSIS: If the Prime Minister wishes, we could meet at half past three.

Mr. MACKENZIE KING: Might I suggest that we adjourn till three-thirty with the understanding that it may be three forty-five.

At twelve forty-five the Conference took recess.

AFTERNOON SESSION

The Conference resumed at 3.50 p.m.

PROVINCE OF QUEBEC

Mr. MACKENZIE KING: The Premier of Quebec, Mr. Duplessis.

Hon. MAURICE DUPLESSIS (Premier): A few weeks after the last provincial general election in Quebec the Prime Minister of Canada, in accordance with his usual courtesy, wrote to me as Premier of Quebec to advise me that the convening of a Dominion-Provincial Conference at Ottawa was being considered, that at first he was of the opinion that this conference should meet as early as possible but later on he changed his mind and decided it was better to postpone the conference until after the federal general election. I answered a couple of days afterwards, thanking the Right Honourable the Prime Minister for his courtesy and telling him that although I respected his opinion in the matter of postponing the conference, I was of the opinion that the conference should take place as soon as possible, the sooner the better. I did not change my mind, and so when we were notified that this conference was being convoked I answered on behalf of Quebec that we would be glad to attend the conference and to co-operate for the well-being, weal and prosperity of Canada as a whole and of the provinces in particular.

It seems to me that before considering the proposals which have been submitted to us, it would be well to recall certain fundamental principles, which to my mind are of the utmost importance. Before 1867 there was no Confederation. In 1867 four pioneer provinces—New Brunswick, Nova Scotia, Quebec and Ontario, which at that time were known as Upper and Lower Canada—decided to form a confederation. This is very important to remember, because it proves conclusively that Confederation was born of the free will of the four pioneer provinces. Confederation is the daughter of the provinces, and that should never be forgotten. At that time it was agreed upon that a certain pact, which had to be ratified by the Parliament at Westminster—acting not as a parliament, but as a notary—would be clear enough to make everybody concerned aware of the fact that the provinces were establishing Confederation not to weaken themselves, but to strengthen themselves. It was decided in the constitution that the provinces would have the exclusive right to direct taxation and that the Federal Government would have a general right of taxation.

Some people are inclined to think—and I respect their opinion although I do not share it—that Ottawa has a right at all times, under whatever circumstances, to levy both direct and indirect taxes. It is the considered opinion of the Province of Quebec, it is the considered opinion of highly qualified jurists, that the fact that the constitution of 1867 specifically gives to the provinces the right of direct taxation means conclusively that the provinces have priority in the matter of direct taxation. Otherwise Confederation would be meaningless, as Premier Drew so eloquently pointed out this morning. I think it would be an insult to the good faith and intelligence of the Fathers of Confederation if we were to conclude that the four provinces who got together to establish Confederation were given only a shadow of rights, were given only the impression that they had some rights. It would not be fair to the intelligence and the good reputation of the Fathers of Confederation to come to this conclusion. The provinces did not get together in order to be assimilated by the Federal Government; they got together in order to strengthen their position by giving certain specific rights to the Federal Government, their daughter, while retaining for them-

selves the prerogatives, rights and liberties which were essential for their weal, their progress and their prosperity, not only at that time but in the years to come.

Although respecting the opposite opinion of others, the Province of Quebec is convinced that the constitution of 1867 is a pact. It was stated as such in the British House of Commons by Mr. Adderley and in the House of Lords by Lord Carnarvon, and time and time again the fact has been recognized in judgments of the Privy Council. So the Province of Quebec is of the considered opinion that the constitution of 1867 is a pact. And, being in the nature of a pact, it cannot be modified, it should not be modified, without the consent of every party to the pact, at least without the unanimous consent of the four pioneer provinces.

According to the constitution of 1867 certain definite prerogatives were recognized. I emphasize the word "recognized," because I do not admit that those rights were acquired through confederation. The provinces had them before, and they were recognized in the constitution. These rights were in the field of education, civil rights and social legislation. It is needless for me to insist on the importance of these different fields of power and jurisdiction. Education is of foremost importance to the Province of Quebec, and everybody will easily realize why. Civil rights are equally so. The same thing is true of social legislation, because it touches education and the civil life and the family life of the province. And I may say right here that although I am specially charged with the administration of the Province of Quebec, and am claiming rights and prerogatives for that province, I shall always be willing to collaborate and to co-operate to insure the same constitutional rights to the other provinces.

Some years ago we established in the Province of Quebec a rural credit system. There was a federal rural credit system, made for the whole country, about which system I have no opinion to express, but the fact remains that that federal system was not suited to the bulk of the Province of Quebec. That was why we established a rural credit system of our own. In ten years of operation we lent to the farmers of Quebec some \$50,000,000—which I think is only \$2,000,000 less than was lent by the Federal Government under its scheme—and our farmers paid back \$11,000,000 before it was due. Out of the whole \$50,000,000 that we lent we lost only \$511.22. I point with pride to that fact, because it shows that proper administrative capacity or ability is not the monopoly of the Federal Government.

We have certain rights, to which we hold firm. I might recall to the delegates some facts which unfortunately are at times forgotten. The Province of Quebec is an asset to Confederation. In our province we are no foreigners, but we have the descendants of people who contributed essentially to the prosperity, not only of Quebec and Canada, but of the continent of North America. From Quebec came the discoverers, the pioneers, who carried civilization and Christianity all over this continent. In Quebec you have a population whose common sense and stability are essential and indispensable to this Confederation of ours. That is why, in considering the position which should be taken, we are of the opinion that the constitution of 1867 should be fully safeguarded and protected.

In August, when this Conference opened its sittings, I stated on behalf of the Province of Quebec that we were coming here not as members of a political party, but as Canadians. And at this Conference we have done our level best to study and examine the problems from a Canadian standpoint, brushing aside every political consideration. In our opinion the relations between the federal authorities and the provincial governments are of such magnitude and paramount importance that no political consideration should interfere with our endeavour to find the best possible solution of the problems facing us to-day. The fact remains that we are living under a federative

system, and this federative system has to last. Nobody has the right and nobody has the power to do away with the federative system. We have just come through a great war which fortunately was concluded by a marvellous victory. In that war we fought against Hitler and Mussolini, against people who had no word of honour, no respect for sacred covenants, and who would have liked to put their ideas into effect in all parts of the world. After having achieved such a wonderful victory over Hitler, Mussolini and the other gangsters, why should we imitate them by establishing in Canada, in our own country, a policy based on disregard of sacred covenants and on centralization of powers and rights in the Federal Government?

The Federal Government made some proposals, and we have studied them. We came here with an open mind, and it was our duty to study the proposals very carefully. We have always been glad to come to Ottawa for a conference with the Dominion Government. Sometimes it was not very convenient for us to come at the time set, because we had a good deal of work to do in Quebec, but we willingly put aside our own business in Quebec and came to Ottawa to attend the Conference, thus showing our sincere desire to co-operate for the well being of Canada. The Federal Government, as I say, made certain proposals, and it claims that these proposals would not impair provincial autonomy but would strengthen provincial autonomy and at the same time would strengthen Canada. These proposals and the explanations of them have been carefully studied by my colleagues and myself, along with some experts, and we have arrived at one definite conclusion. We all remember the old saying, "A rose by any other name would smell as sweet." Well, centralization by any other name would smell as bad and would be as dangerous. In my opinion, if we accepted the proposals of the Federal Government, Confederation could not endure. The provinces have certain clear powers—we had them before Confederation and we still have them to-day—and our power to tax is essential to our power to legislate. We must be able to tax in order to get the money to implement our legislation. The Federal Government wishes to deprive us of the power to levy personal income taxes, corporation taxes and succession duties. It is important to notice that the appetite of the Federal Government has increased. This is not a good sign. The appetite of the Federal Government—of the daughter of the provinces—has increased so much that the daughter would like to swallow the Mothers of Confederation. The personal income tax, the corporation tax and the succession duties are very important. Why? Because they constitute a rich field of revenue and because they are essentially provincial in their nature, since they are direct taxes. At the time of Confederation it was agreed to leave the levying of direct taxes to the provinces. I think that in their after-thoughts some statesmen feared that the levying of direct taxes might become so unpopular that it would kill the provinces. But after it was seen and agreed upon by everybody that direct taxation was accepted by the ratepayer Ottawa comes along and reaps our harvest of many years of work and wants to keep the harvest.

Although I do not doubt for a minute the sincerity of Ottawa it seems to us that that is a little bit too much. If on the one hand the federal government wishes to respect provincial autonomy, if on the one hand the federal authorities consider themselves in honour bound to respect the covenant of 1867, they have got to take the means to respect that covenant and not take away the means from the provinces. In the speech delivered by the Right Honourable the Prime Minister I see this statement:—

In no case will Dominion payments to a province be less than 150 per cent of that province's annual receipts under its Wartime Tax Agreement.

That is very clever, but what is the meaning of it? The meaning is that in 1942 an agreement was entered into between Ottawa and the different provinces called the Wartime Tax Agreement. According to this agreement the province of Quebec received partial compensation for a total cession of a total right. To make it plainer, in the province of Quebec at that time there was a personal income tax of 5 per cent; there was a corporation tax of 5 per cent. It seems to me that when a fair bargain is made consideration should be given to the fact that we were only getting 5 per cent of a dollar. We were entitled to 100 per cent and Ottawa taxed 100 per cent. I do not say that is a good example but we were entitled to a dollar and we were getting 5 cents according to the 1942 tax agreement. The dollar was given to Ottawa and we got 5 cents. I do not think that the Ottawa statement here is fair. If Ottawa says they are giving us 150 per cent I say they are giving us 12½ cents out of a dollar. There is something illogical. We have always considered that the best conditions for stability—and God knows we need stability—are frankness and logic. I do not doubt for one minute the frankness of the federal government, but with the best good will in the world I cannot see their logic.

As far as British Columbia is concerned, Mr. Hart is a very clever man. He gets all he can. So much the better for him. British Columbia, according to the 1942 agreement, was getting compensation based on 10 per cent and we were getting 5 per cent. Today we will be getting 12½ per cent according to the figures. I did not have time to peruse the figures. I know that as far as those figures are concerned the old saying "figures cannot lie" does not apply but I am always very cautious when figures are given to me because I noticed some time ago figures were given to us giving the impression that we would get \$3 a head more. It was 50 cents. It was a little mistake. British Columbia is getting 10 per cent. Mr. Hart would like to get more. So much the better for him, but if we want to have an agreement we should take into consideration certain factors.

The federal government is stating that they wish to decrease taxes. I do not know how they can decrease taxes. If it is their secret I do not ask them for the secret. What strikes me is this. How would it be possible logically to decrease taxes when they contend that the provinces will get more from the taxes, Ottawa will get more and the taxes will decrease? I must admit that my intellect is not sufficient to arrive at such a conclusion.

In British Columbia they are getting 10 per cent. Mr. Hart wants more. Good for him. It is not a matter of trying to get from Ottawa this or that. Ottawa is giving us nothing. The sooner everyone realizes that the better. Ottawa is taking everything from us but not giving anything. It seems strange to me to hear people say that they are making a gift. It does not seem logical. If British Columbia is getting 10 per cent I think there should be a way by which, if an agreement is possible—and I hope it is possible—a fair basis for every province could be arrived at. To my mind this fair basis would be to establish the compensation on the productivity of the sources of revenue in a province. That is a fairer basis. If a rate is fixed the rate should be the same for every province.

Mr. Chairman, Quebec fully realizes the difficulties of the federal government at the present time, and we are willing to help. We fully realize that we are all sisters in this confederation of ours. We realize it is the duty of the strongest sister to help the weakest, but we cannot realize how it would be possible to help the weakest sister if instead of being blood donors we were bled to death. It would not be for the benefit of anybody. There is a big difference between a blood transfusion and bleeding the donor to death. Who would benefit by that? Nobody. The donor would not benefit, and the one who is receiving the gift would not benefit.

I think it is possible with real Canadian good will to take into consideration these different angles of the question and arrive at a proper solution.

In the province of Quebec we have special reasons to make certain clear statements in connection with the corporation tax. We levy a school tax on natural resources in the province of Quebec. We need this money to give to our children of Quebec the incomparable benefit of education. According to this agreement these taxes could not be levied by the provincial authority. Natural resources belong to the provinces. They belong to the provinces to such an extent that the Privy Council decided that even a federal loan does not affect provincial natural resources. That is why I say that some consideration should be given to the exclusive and essentially indispensable right of the provinces in connection with natural resources, forests, water power, mining and so forth.

As far as succession duties are concerned succession duties belong to the province. They are essentially a provincial tax. Why? Because it is not up to Ottawa to decide who is going to inherit. It is essentially a provincial matter. The creation and definition of an estate belongs exclusively to the provinces, and more so in the province of Quebec. In the province of Quebec we have special traditions which we hold dear, and rightly so, and I might recall that the province of Quebec is asking for no favour. The province of Quebec is asking for justice which we would be willing to give to our sister provinces in the same circumstances. In the province of Quebec we have certain traditions about family life, we have certain habits, which are dear to our hearts, and rightly so. I do not want to refer to recent events. I do not want to refer even to happenings which occurred twenty-five years ago. If you open the pages of Canadian history everyone can see that away back in 1775 after the American Revolution it was the people of Quebec who protected this country against invasion by a foreign nation. In 1812 the same thing was repeated. Therefore, it goes without saying, and there is no one who can deny the fact, that the loyalty of the province of Quebec is unsurpassed anywhere in Canada or anywhere in North America. In the province of Quebec we have traditions, traditions of loyalty, traditions of family life, traditions with regard to estates and those who should inherit the estate. It belongs to us. We cannot share it with Ottawa because we would be sharing with Ottawa something that belongs exclusively to us, that forms part of our soul, and the soul is indivisible. I do not want to offend anyone, but there is no logic on the part of Ottawa. Why? Ottawa is supposed to be looking for greater revenues to meet certain needs, and they want to keep the source of revenue, which according to them, is the poorest. There is no logic in that, looking for revenue and only to the poorest source of revenue.

Mr. Ilsley gave another explanation. Mr. Ilsley stated that one of the reasons why Ottawa wanted to share in the succession duties was owing to the fact that it was a good way of collecting income tax due by an estate, the income tax of a man who had not paid to the federal treasury the amount he should have paid. That is exactly one of the reasons why Ottawa should not get it, and I will explain myself more fully. According to the income tax law today the Minister of Finance has a right to decide arbitrarily what amount should be paid. He has a right to decide if a provincial tax is to be considered as a tax, if a municipal tax is going to be considered as a tax. In short he has an over-riding power over the provinces and over the municipalities. According to the income tax law the receipts which are given to us are not final receipts. The federal authorities can come at any time and say, "Sir, you have a receipt but that receipt is no good." I do not say that Ottawa would do it, but I do say

that for Quebec or anyone else the temptation should always be taken away as much as possible because it is the surest way to be protected against sinful rules and thoughts. In his speech today Mr. King stated this:

The Dominion government will have to use its constitutional powers to the full extent necessary to meet its heavy national and international financial obligations and commitments.

I hope that this is not a threat, and I am convinced that it is not so. Anybody reading this declaration would come to the conclusion that Ottawa is saying to the provinces, "You had better take this, or we will take everything without your consent." The country needs today stability. The country needs today unity, not unity by assimilation but unity in diversity consecrated by the federated pact; and unity will never be achieved if, instead of discussing in a brotherly manner, one party threatens another one. These threats are not, cannot be, and will never be conducive to Canadian unity. These threats cannot but produce disunity, appropriate, firm and everlasting reactions which sooner or later would undermine confederation.

It should be possible and it could be possible, without changing the fundamentals, which cannot be changed and which should be considered as untouchable; it should be possible and it is possible to make temporary arrangements, clear, precise and definite arrangements, taking into consideration the rights and prerogatives of every party to it.

The Ottawa proposals, if they were to be applied, if they were accepted, would sound the death-knell of confederation. In Quebec we are true to our obligations, but we are jealous of our rights, just as we are jealous of the rights of the other provinces and the rights of Ottawa.

Some propagandists—and I know that the federal authorities have nothing to do with that—publish all kinds of rumours which may add a quality of temporary political benefit to a party, but which, in our minds, cannot but produce evil results. Some propagandists, as I was saying, and I read in the papers, say that there are two men who are looking towards scuttling this conference, Premier Drew of Ontario and Premier Duplessis of Quebec. I think this is most unfair, and I think that the Right Hon. the Prime Minister will recognize that fact. After all, is it reasonable to ask us to be a tenant, in our own house—is it reasonable? Moneys are important; money is a wonderful servant; but money is an awful tyrant. Whether the links of a chain are in gold or in steel, a chain is a chain. In a country like Canada with a federated system, there is no room for one member of the confederation to be chained by another one, no matter who it is, or where he comes from.

I think there is only one reply, Mr. Chairman, to the suggestion about scuttling this conference. We are willing to work and work again to try and find a fair ground for agreement according to the spirit and the letter of the constitution. The danger is not that of scuttling the conference; the danger, the dire danger is in the scuttling of confederation itself; and the scuttling of confederation can be achieved through putting into practice what the federal proposals amount to. Money is very important but so is the right to live, the right to exercise living, the right to live life itself—that is vastly more important; it can never be replaced by or with money. And in the province of Quebec we consider the power to live our lives within the framework of the constitution; to live according to our own traditions which belong to us of utmost, indispensable importance.

We believe that that right to live is more important than mere money, although we need money and although we need our share.

Mr. Chairman, I say that what we need to-day in these trying times are three things: firstly, clarification, definite clarification, the precise definition of the taxing powers of the provinces and the Federal government. This is the central part, the corner-stone of liberty and of national security. Then, we need,

after that, simplification in tax collection methods and moderation in taxation. The very moment when Ottawa wants to take away from the provinces very important sources of revenue to reduce taxes so they say, Ottawa speaks of levying a new tax to be added to the taxes which we already have, and which will produce, according to Ottawa, \$147,000,000 more than the existing burdens.

There is no logic in that, in asking the provinces to give away their birth-right. Taxes should be decreased and, yet, at the same time here we have a suggestion for one tax alone which would produce \$175,000,000 a year, according to Ottawa, but which would produce much more than that according to general practice as can be realized by any ratepayer, or by any government that is talking about new taxes.

Ottawa says that it wants to establish a social security system. We are in favour of social security in the province of Quebec and so is Ontario. Ontario forged the way in a few instances. We have no lesson to learn from anybody, as far as social security is concerned; our social legislation is not perfect, but our social legislation is advanced; we have progressive mothers' allowances, old age pensions, blind pensions, family allowances, and many others which it would be too long to mention. Social security cannot be achieved and will never be achieved until and unless there is durability. Security and durability can never prevail if the base, or rather until the base of such security is founded on the security of the constitution and on the security of the taxpayer. Would it not be possible for Ottawa to explore the possibilities of decreasing federal expenditure? Would it not be more brotherly to decrease expenditures than to take away from the provinces important sources of revenue? I am not passing on this remark as a criticism of anybody; far from that, but merely as a suggestion. I think it should be possible to decrease certain expenditures and we are willing to help Ottawa to achieve that.

We are willing, Mr. Chairman, to continue the study of these questions. We are willing and we realize that the limitation and clarification of provincial and federal powers of taxation cannot be brought about overnight. We are willing to collaborate during the necessary time by renting to Ottawa—and I insist on using the word "renting" to Ottawa certain sources of revenue which can be discussed and which could be found, because we are in good faith and we have the sincere and deep desire to collaborate. But that does not mean assimilation through confiscation. We are willing to collaborate and this is why: as I stated in my brief, we would be anxious to sit down again in committee and find some sources of revenue which could be rented; I have mentioned already income tax, with certain conditions, because income tax to-day, and I do not criticize anybody, opens the door to a lot of injustice.

For instance, we are called upon to-day to increase the wages of the teachers in Montreal and elsewhere; and when the government of Quebec spends millions to increase the wages, a great part of that money goes to Ottawa in the form of income tax; this is something which should be corrected. I received from the general president of the Federation of Labour, Mr. Charpentier, a telegram drawing attention to the fact that it would be only fair for Ottawa to decrease the income tax starting at \$1,200 yearly salary for unmarried persons and at \$2,000 a year for married people. As far as corporation taxes on natural resources, are concerned it should be possible to arrive at an agreement. The same should apply to succession duties.

I propose, Mr. Speaker, in the name of Quebec, that if this conference goes on, and I sincerely hope it will, that we try to arrive at a definite and precise settlement for the determination of certain sources of revenue on a fair basis for everybody. That would help Ottawa to pass through this temporary crisis, we hope, and at the same time it would protect the rights and privileges of the provinces and give all of us time to achieve the precise clarification of taxing powers, the simplification of collection, and the moderation in taxation.

PROVINCE OF NOVA SCOTIA

Mr. MACKENZIE KING: The Premier of Nova Scotia, Mr. Macdonald.

Hon. ANGUS L. MACDONALD (Premier): Mr. King and gentlemen: the province of Nova Scotia has already submitted two short briefs to meetings of the co-ordinating committee. At this time we repeat the general submissions which were made to the November and January meetings and we repeat particularly our view that the fundamental problem involved in this conference is first of all to divide up the responsibilities of each of the governments concerned, and then to arm the responsible units with the legal power and sources of revenue appropriate to the division. The Dominion proposals are almost wholly fiscal in their nature, and insufficient attention has been paid to the constitutional problem, which is, first of all, the allocation of governmental responsibility. Financial considerations are important, but they are merely a means to the proper discharge of allotted responsibilities. They are not ends in themselves as the Dominion proposals would seem to indicate.

The province of Nova Scotia suggests that whether this conference comes to an agreement or not, preparations should be made now to restudy the duties and fields of operation of the Dominion and the provincial governments; that, where necessary, new allocations of powers and duties should be made as between the Dominion and the provinces, and that exclusive sources of revenue adequate to such allocations should be provided the Dominion and the provinces. This task should be undertaken and completed within three years—the suggested lifetime of the agreements now proposed.

The Dominion proposals go only a short distance in the direction of a reallocation of governmental responsibility and governmental sources of revenue. It is true that the Dominion Government has announced its willingness to assume the entire cost of paying old age pensions to persons seventy years of age and over, to assume a fairly large measure of responsibility for unemployed employables, and to make certain grants for public works, health, etc.

In return for these assumptions the Dominion asks the provinces to give up completely their rights to collect income and corporation taxes and to share with the Dominion or give up entirely succession duties. These first two items alone, corporation tax and income tax, yielded in 1945 a total revenue of \$1,538,000,000, or \$129 per capita for every man, woman and child in Canada.

In addition to the fields in which the Dominion desires exclusive rights of taxation, there are other fields which, before the war, were occupied entirely or largely by the provinces in which the Dominion wishes to continue its war-time taxing operations. These are the gasoline, amusement, electricity and pari-mutuel tax fields.

The Provinces, on the other hand, are left with great and growing obligations in respect of the construction and maintenance of highways, education, public health, rural electrification, agriculture, management of forests, mines and other elements of the public domain. These are obligations which are of the greatest economic and social importance to the people of Canada, and if the provinces are to discharge them successfully they must be given the necessary revenues. Constitutionally and traditionally these obligations have been the responsibility of the provinces ever since Confederation; they have never been diminished in any way, and there is no likelihood that they will ever be other than provincial responsibilities. To meet these obligations the only exclusive fields of taxation proposed to be left to the provinces are real estate and automobiles in the hands of the owner. All other fields of taxation are either occupied or proposed to be occupied exclusively by the Dominion or shared by the Dominion and the provinces. That is the position as I see it.

But to come directly to the submission made by you this morning, Mr. Chairman, for the Dominion Government. If the Province of Nova Scotia should accept the Dominion proposals with respect to income tax, corporation tax and succession duties, which are the three main proposals in the submission, the province would ask that:—

- (a) The Dominion vacate the gasoline, amusement, electricity and pari-mutuel tax fields.

And here may I say that we are willing to negotiate in this regard along the lines suggested in the submission this morning, or along similar lines.

- (b) The Dominion agree that it would not enter any other field of direct taxation.
- (c) The Dominion recognize the principle of fiscal need in its grants to provinces.

These three suggestions will be expanded and explained in the next few paragraphs.

As to the vacation by the Dominion of certain fields mentioned in paragraph (a), it may be said that from the beginning gasoline taxes have been imposed by the provinces and have been used primarily for the construction and improvement of highways in the provinces. These taxes, in my judgment, should be left with the provinces, which are responsible for highway maintenance and construction.

Taxes on amusements were also first imposed by the provinces, and should be left to the provinces.

Provincial taxes on electricity bear a close relation to the policies of rural electrification now general in all the provinces, and these taxes too, ought to be left to the provinces.

In its submission of Thursday last the Dominion Government said:

The Dominion, however, is prepared in the case of companies whose main business is generating for distribution or distributing electrical energy, gas and steam to pay one-half its net corporation income tax collections from them in respect to sales thereof to or for the public. This payment to a Provincial Government would of course be reduced by an amount equal to any taxes which the government of that Province levied on such companies.

In respect to all other corporations the Dominion would require that in the event a provincial government or one of its municipalities took over a tax-paying corporation, a deduction equal to the tax loss to the Dominion would be made from that government's subsidy. It is obvious that in offering the provinces a substantial amount to retire from the corporation income tax field, the Dominion must insist that the corporation income tax field retains its present scope and definition.

The effect of these provisions of the Dominion proposals, while substantially modified in proposals put forward by the Dominion today, still is to penalize a province where corporate development has been in the main the result of the efforts of private enterprise.

Mr. ILSLEY: It is not modified.

Mr. MACDONALD: I thought it was modified to the advantage of the provinces; I was not suggesting that it was made more harsh.

Mr. ILSLEY: It was left entirely alone.

Mr. MACDONALD: No, it was not left entirely alone. In to-day's submission, page 7, paragraph 10, there are these words:—

This provision would not apply to the companies referred to in the preceding paragraph.

Mr. ILSLEY: The wording is a little different, but the meaning was intended to be exactly the same.

Mr. MACDONALD: At any rate, the position is clarified to-day and there is no doubt now that the provision in paragraph 10 on page 7 of today's brief would not apply to companies distributing electrical energy, gas and steam. I thought there was some little doubt about that in Thursday's submission. The point is not important. The main point is that the effect of these provisions of the Dominion proposals is to penalize a province where corporate development has been in the main the result of the efforts of private enterprise. Privately owned companies have heretofore paid substantial taxes to the Dominion Treasury, whereas publicly owned enterprises have been exempt from taxation, with corresponding advantages to provinces where such enterprises are in the main publicly owned. The Dominion proposals would have the effect of continuing this discrimination against private enterprise.

In other words, municipal or provincial ownership of any corporation whatever, except those excluded under the Dominion proposals of today, and except those already established under public ownership will be penalized, but established public ownership systems will be favoured. There seems to be no sound basis for such a distinction. It seems manifestly unfair to say that a company which was publicly owned, say, before May 1, 1946, or any other given date, shall escape taxation, but that public ownership assumed after that date will have the effect of reducing the amount of specified annual payment payable by the Dominion to the province.

As to our request that the Dominion agree not to enter any other field of direct taxation, the province of Nova Scotia considers it essential that certain fields of taxation should be left entirely in provincial hands. This view becomes greatly strengthened when we consider that the Dominion is seeking exclusive control over the two greatest sources of revenue now available in Canada, namely, income and corporation tax. The province should not be asked to manage their affairs on the taxes received from motor vehicles and land, and on a portion of the taxes received from gasoline, amusement, electricity and pari mutuel operations, together with such subsidies as the Dominion may grant.

On Friday, at the meeting in camera, I expressed the view that the provinces had made a bad bargain in Confederation. They then had the power to make any bargain they wished, because there were not two parties, but only one party—the party represented by the provinces; there was no Dominion until they brought it into existence. The provinces, however, in spite of the great power which they then had to make a bargain, assumed grave responsibilities in connection with education, health, the administration of justice, charities and matters of a private or local nature, but they neglected to provide themselves with sources of revenue adequate to the proper discharge of those responsibilities. And not only is it true that the burdens and responsibilities assumed by the provinces were great in 1864, 1866 and 1867, but they have grown immensely in the intervening eighty years. The heavy burden of social services is one that primarily falls upon the provinces.

Here, with no rancour or bitterness, I must refer, as I did when we were meeting in camera, to a practice which has grown up at Ottawa and which I regard as unsound, the practice of the Dominion going into fields which in their nature are strictly provincial, with the result that one or the other of two results follows. In the first place, the provinces may be asked to assist financially in the carrying out of a scheme as to whose formation they had not been consulted; or, on the other hand, the Dominion finds itself forced to come to the provinces and say: "We have not got the money to pay for this scheme, so you must surrender the undoubted rights that you have in certain fields of taxation, in order that we may have the money to carry out the scheme." The more logical

way, I suggest, would be to let the provinces do those things which it is their right and in many cases their privilege to do, and if they have not sources of revenue adequate to the purpose, then let them be given the necessary sources.

But to return directly to the suggestion I made a few minutes ago, that the Dominion vacate the gasoline, amusement, electricity and *pari mutuel* fields of taxation, and that the Dominion agree not to enter into any other field of direct taxation. Why does the province of Nova Scotia insist on this? To answer that you must look at the position as it is under these proposals. The position, as I said a few minutes ago, is that the only fields of taxation left exclusively to the provinces are the taxation on real estate and on automobiles in the hands of the owner. So far as Nova Scotia is concerned and, I believe, so far as most of the other provinces are concerned, the taxation on real estate has no value whatever, for real estate is about the only source of taxation left to our cities, towns and other municipalities. Real estate can be disregarded as a possible source of provincial revenue in at least five of the provinces. In Nova Scotia automobiles are already heavily taxed. The licence fee there is, I think, the highest in Canada; certainly it is nearly three times as high as in Ontario. There seems to be little likelihood of the province obtaining any more revenue from automobiles, except such revenue as might flow from an increased number of them.

How do the provinces stand under the proposals? We have two exclusive fields of taxation, one of which fields is valueless. There is joint occupancy of other small fields, such as gasoline, amusements, electricity and the like. Then there are the proposed grants, which the Dominion calculated at \$15 per head, increasing as the production of this country increases. In return we are asked to surrender our rights to collect income and corporation taxes, two fields which, as I said, yielded last year something in excess of one and a half billion dollars. We have then to surrender the rights to collect income and corporation tax, two fields which I said last year yielded something over one billion and a half dollars. That is the position which the provinces are asked to take. Let me ask you, Mr. Chairman, and the delegates here, whether they represent the Dominion government or the provinces, let me ask anyone who is within sound of my voice, let me ask that greater body to which we as public servants are all accountable, the citizens of our provinces or of Canada, let me ask any of those people whether they think that is a fair or honourable or dignified position in which to place the provinces in this dominion. Provincial autonomy will be gone. Provincial independence will vanish. Provincial dignity will disappear. Provincial governments will become mere annuitants of Ottawa. Provincial public life—and I do not think these words are too strong—will be debased and degraded. I cannot think that such a state of affairs is desired by the representatives of the government of Canada here today, my one-time colleagues. I am sure that they have no wish or desire to see such a state of affairs come to pass in this country, nor can I believe that such a state of affairs is desired by the people of this country.

I turn now to the last proposal that the government of Nova Scotia makes. That is a proposal with regard to fiscal need. We believe that population alone is not a sound basis for determining Dominion grants to the provinces.

A per capita grant which might be sufficient for one province might prove inadequate for another less wealthy province, or might, on the other hand, be excessive for a province which is fortunately placed because of its geographical position, its greater natural resources, or its favoured position in the Canadian economy. The relative wealth and taxable capacity of each province must be considered when its financial relations with the Dominion are being studied.

The government of Nova Scotia believes that grants from the Dominion to the province can never be an adequate remedy for the injurious effects of certain federal policies upon the province, notably in the matter of tariffs and transportation. Subsidies from one government to another do little more than make it easier for the receiving government to balance its budget. They do not materially raise the economic level of the people of the province.

The ideal condition would be found when all provinces of the Dominion would have such revenue and such levels of economic well being among their people as to make the granting of subsidies by the Dominion government unnecessary.

Nevertheless, subsidies have been paid by the Dominion to all provinces since Confederation, and it may be that for one reason or another subsidies will always be required.

We would, therefore, be prepared to consider a Dominion proposal for a suitable irreducible grant calculated on a basis common to all provinces.

It must be realized, however, that certain provinces in spite of competent and economic administration and restriction of expenditures to proper provincial purposes, find themselves unable to maintain the standard of government services normal throughout Canada, upon the basis of a rate of taxation normal throughout Canada. Where such conditions prevail, they should be corrected by a special grant, the amount of which should be determined by the fiscal need of the province.

The principle of fiscal need or economic need has been recognized, expressly or impliedly, by successive governments of Canada since Confederation, and it has also been accepted by commissions appointed by the Dominion government, among which may be mentioned particularly the Duncan Commission on Maritime Claims in 1926, and the Sirois Commission whose report was brought down in 1940.

The government of Nova Scotia, therefore, holds strongly to the view that the fiscal need of provinces should be the governing principle in the allocation of grants by the Dominion government, and that such need should be calculated by a finance commission, sitting permanently and functioning along the lines followed by the Commonwealth Grants Commission in Australia.

One last word, Mr. Chairman, before I conclude, and that is this. I believe that the people in this country are most anxious over this conference. I believe they hope with all their hearts that it will succeed. I believe furthermore that it can succeed, not perhaps wholly along the lines that either the Dominion or the provinces desire, but on lines that are still more vital and important, lines that follow the best interests of the people whom we are here to serve.

PROVINCE OF NEW BRUNSWICK

Mr. MACKENZIE KING: The Premier of New Brunswick, Mr. McNair.

Hon. J. B. McNAIR (Premier): Mr. Chairman, it is not my intention to attempt at this time to restate at length New Brunswick's position in these negotiations which have been proceeding since last August. After nearly nine months of conference discussions such a course should not be necessary.

At the opening of the conference I advanced some general views which my colleagues and myself felt should be given weight in any study of dominion-provincial relations. The views then expressed will, on examination, be found to be consistent with the broad principles which underlie and support the proposals of the Dominion government.

Those proposals were at the outset of the deliberations of the conference accepted by all as the basis for our discussions. In the interim since last August much study has been given them. The purpose of such study has

been to determine the sufficiency of those proposals to accomplish the economic and social objectives which have been advanced as their justification and which all have admitted are desirable.

The original proposals of the Dominion have, as a result of committee discussions, been modified to a considerable extent. As revised they were placed before us this morning.

As I sense the situation, the revised proposals now approximate the sum total of the amendments and adjustments which, having regard to the heavy obligations of Canada abroad as well as at home, the Dominion government feels can be made. Our purpose here today is that the provinces may now openly indicate their respective attitudes on the amended plans.

Speaking for New Brunswick I am constrained to say that in our view the Dominion's proposals are still inadequate—primarily because of the omission of any plan to provide for the more needy provinces supplementary grants based on their financial circumstances.

May I say that in my mind this omission is all the more striking when one considers that the principle of fiscal need subsidies has always, down to the present time, been recognized in any discussion of financial arrangements between the Dominion and the provinces.

As the Premier of Nova Scotia just pointed out, from the foundation of Confederation provinces have been compelled to seek special terms from the Dominion—with some degrees of success. A more recent instance, of special interest to New Brunswick and the Maritimes, was connected with the work of the Duncan and White Commissions, which resulted in new fiscal need subsidies for the Maritime provinces. Again, as has already been pointed out, fiscal need was acknowledged by the Sirois Commission as a sound principle in determining federal subsidies to the provinces. National adjustment grants calculated on the fiscal requirements of certain provinces, to bring provincial services up to the average Canadian standard, were an integral part of the financial plans recommended by the commission.

At the 1941 Dominion-Provincial Conference the recommendations of that commission were accepted, in principle, by the Dominion government. In addition, in the 1941 budget proposals of the same government fiscal need was recognized as a legitimate element in determining the annual amounts to be paid the provinces, as compensation, for vacating for the period of the war the income and corporation tax fields; and was actually applied in certain of the Wartime Tax Agreements which resulted.

It must be noted also that the revision of its original proposals, now offered by the Dominion, recognizes the special budgetary problems of two provincial governments and makes special concessions for them, with which I do not quarrel, while denying such concessions to others.

The present financial proposals of the Dominion have a peculiar incidence for New Brunswick. Unlike all other provinces ours was unique in that, when the existing tax agreements became operative, our municipalities were occupying the income and corporation tax fields in a general and substantial way. That historic condition has created for them a vested interest in such fields which cannot be disregarded.

Under the present tax agreement with our province the Dominion has been paying annually, on account of the New Brunswick municipalities, the sum of \$1,384,410.23. These moneys, as received by the provincial government, have been distributed among the municipalities as compensation, from the Dominion, for the wartime abandonment by them of the tax fields mentioned.

Under the present Dominion proposals the provincial administration would be required to take action to exclude the municipalities from the same tax fields; but in the present case at the expense of the provincial treasury.

No one can reasonably suggest that the needs of our municipalities should be met out of our flat rate per capita grant, as proposed for all provinces. On the basis of the annual sum that the Dominion has been providing for them during the war years, the government of New Brunswick, in order to indemnify the municipalities, would be obliged to divert from its own purposes \$3 and upward of ever \$15 received by it. To state that result should be sufficient to prove the case for special treatment for our province, having in mind that an avowed purpose of the Dominion's program is to place each provincial government in a position to provide the services for which it is constitutionally responsible.

It should be remembered that our province has, to support its case for special consideration, some very strong findings of the Rowell-Sirois Commission.

At page 91 of volume 2 of its Report will be found this passage:—

New Brunswick shares with Nova Scotia the unhappy distinction of the longest unfavourable economic history of any Canadian province.

At page 190 of Volume 1 of the Report the Commission pointed out this:—

The general effect of national policies has been to accelerate the natural shift of industry and finance, and of concentration of wealth and income, to central Canada.

That concentration of industry and finance in other parts of the Dominion, due essentially to national policies framed and managed at Ottawa, has created for New Brunswick, as well as for other parts of Canada, a monopolistic competition and control which bears heavily and unduly upon our whole provincial economy and all our citizens. The people of New Brunswick, engaged for the most part in the primary industries, are compelled with practically every purchase of manufactured goods to pay a subsidy for the benefit of Canadian industry elsewhere, which has sheltered, is now sheltering, and will doubtless seek to continue to shelter, behind the protection of national policies.

Our situation is quite different from that of another province whose views were expressed this morning. We are obliged by circumstances beyond our control to place great store in federal subsidies. Our problem is to get more in the way of financial assistance, not less.

In view of our condition our demand for some differential treatment is, I submit, altogether reasonable. It is supported by this additional suggestion of the Rowell-Sirois Commission:—

When as a result of national policy undertaken in the general interest, one region is enriched and others impoverished it would appear that there is some obligation, if not to redress the balance, at least to provide for the victims; and policies of taxation and public expenditures offer a convenient means.

The Commission, on whose views and findings I have been relying, made very definite financial recommendations favouring our province. The special financial terms suggested by it were intended to enable us to meet, in some measure, the adverse economic and social conditions which had resulted over the years from the operation of policies for which the Dominion was, and is, responsible.

The Commission's financial recommendations, if implemented, would have resulted in an improvement in our budgetary position of nearly three million dollars.

The financial plan of the Commission was enlarged in later studies made by experts appointed by the Dominion in preparation for the 1941 Dominion-Provincial Conference. As so enlarged it would have improved the financial position of New Brunswick by nearly four million dollars.

That estimate of our fiscal need, made at a time when administration costs were considerably lower than to-day, indicates that much is now required, by way of preferential treatment through special grants, to bring our services up to the average standard prevailing throughout Canada.

During our committee discussions the representatives of the various provinces, without exception, conceded the need and justice of fiscal need subsidies to meet the peculiar circumstances of some of the provinces. Several strongly pressed the point. On the other hand the Dominion government through concessions made to two provinces, and now incorporated in its amended financial proposals, has recognized the fiscal need principle.

As I understand the matter the main objections of the Dominion to a more general application of that principle centre around two points.

In the first place it is contended that it would be difficult to apply it generally. The answer on that score is that such difficulties only constitute an additional challenge to us. I feel certain that some workable machinery or procedure can be developed for the purpose.

In the second place it is contended that a more general plan for fiscal need subsidies will involve added costs for the Dominion, which it is unable to bear. I respect that opinion but the answer to that objection is that such a plan can be adopted by a very simple modification of the present proposals of the Dominion and without any additional outlay on its part.

May I explain what I mean? Under the revised proposals as submitted here to-day the grants to the provinces, apart from the two which are receiving special treatment, are to be arranged and computed in this fashion:

1. For each province an annual basic grant calculated at the rate of \$15 per capita and based on its 1942 population as an irreducible minimum. I think it may be on the 1941 population if the province so chooses.

2. For each province an annual supplementary grant being a percentage of the basic grant and arrived at by the application of the gross national production formula. According to the figures which have been submitted the supplementary grants would in 1947 total \$16.8 millions for the seven provinces concerned.

The suggestion I am now advancing is that during the life of the proposed agreements the amount of such supplementary grants be placed in a special fund—which might well be called an “Adjustment Grants Fund”—and be apportioned each year among the interested provinces on the basis of their relative fiscal need, in accordance with the principles laid down by the Rowell-Sirois Commission.

As the provinces alone would be affected by such re-allocation of moneys which under the proposals would be due them there can, I submit, be no objection on the part of the Dominion to the plan proposed.

And now, on behalf of the New Brunswick government I wish to say that subject to some such modification of the proposed financial arrangements we are prepared to recommend to our legislature the acceptance of the Dominion's program. In saying that I wish to make clear that we still feel other modifications are desirable in the general interest. Our views thereon will be presented if, and when, the work of the conference is resumed at the committee level.

In taking our position we are guided by various considerations. First and foremost is the thought that the people of Canada are looking to us to arrive at an agreement on the momentous issues involved in these negotiations and on which depend so largely the welfare and security of them all.

Another important factor is that the proposed agreements will run for a trial period of three years only. At their termination the financial arrangements will be open for re-negotiation. The provinces will have the right to re-enter the ceded tax fields, should they so desire. No constitutional changes are involved.

A further impelling consideration is the gravity of the times in which we live. We can ill afford to fiddle at home while the world burns. Our nation is faced with tremendous responsibilities not only in the domestic sphere but as well in the ever-widening field of world affairs. The people of Canada must face up to the tasks and the dangers of the hour as a united nation. The times and the circumstances in which we live are a challenge to present day leadership. They call for co-operation at all levels of government and in every field of human relationships.

I feel that I express the sentiments of the people of New Brunswick when, on their behalf, I tender to the people of the rest of Canada, represented here, co-operation in all reasonable works designed to fit our country for the discharge of her heavy responsibilities.

The government of New Brunswick feels that for the period of the proposed agreements the hands of our nation will be strengthened through the plan of co-operation which has been under study. Time and experience may evolve a better scheme. Against that possibility and subject to the modifications suggested we are prepared to give the Dominion program a trial.

PROVINCE OF MANITOBA

MR. MACKENZIE KING: The Premier of Manitoba, Mr. Garson.

HON. STUART GARSON (Premier): Mr. Prime Minister, I have material which will be fairly lengthy; so I was wondering if it were desirable for me to start when there is only eight minutes before our hour of adjournment?

MR. MACKENZIE KING: Well, it was understood that we might go on a little longer.

MR. GARSON: Very well; you may call me to order when the time comes. Manitoba was in a different position from some of the other provinces that we have heard, in at least this respect, that, when the meeting of the conference was held in August last, we came prepared with a brief which was for some time in preparation and which we presented there before we could have the opportunity of reading the proposals of the Dominion government. We presented our brief without knowing what the Dominion proposals were, or what those of any other province were, and we advocated many things which we thought ought to be brought together as the solution of the problems with which this conference was concerned. Many of those things, I regret to say, have not received, by any means, the unanimous acceptance on the part of the other governments represented at the conference. We were neither surprised nor dissatisfied by this, because we realized that when ten sovereign governments meet to reach an agreement to which all can subscribe, no one government can expect to have all of its views accepted by the others; and this is particularly true when the issues are as difficult and as complex as those of this conference.

Now, Mr. Chairman, I want to make it entirely clear, on the one hand, that we do not retract any of the suggestions which we made in our brief; we are still of the view that they are sound ones; but, on the other hand, I want to make it quite clear that we came here prepared, in a democratic manner, to compromise in the interest of reaching a mutually beneficial agreement, and the purpose of my remarks today is to indicate the nature of the compromises we are prepared to make.

Today, after many weeks of work on the part of the members of the various economic committees and advisory committees, and after many days of discussions at our four meetings, we approach the stage, I believe, and I hope, where the issue is to be settled as to whether we conclude an agreement or fail to conclude an agreement.

I think that, perhaps, I differ in this respect from some of the preceding speakers in that all the governments here have either presented their views in writing or orally; but these views, in my case, as originally presented, have been modified and, in some cases, quite substantially modified by the long sessions which have taken place until now, we are approaching some measure of finality in the views of the governments here represented. It seems to me that, in their present modified form, the viewpoints of the ten governments, taken as a whole, present to this conference a choice between two clearly defined alternative courses of action.

The first alternative is that we do not conclude an agreement. The result of this failure would be that the Wartime Tax Suspension Agreements between the dominion and the several provinces which expire in the near future, the result being that the provincial governments would resume their pre-war responsibilities and taxing powers and the relationships between the dominion and the provinces would revert to their pre-war status, a status which proved so completely unsatisfactory during the past twenty-five years, and particularly during the depression of the 1930's.

The second alternative is: That we reach an agreement consistent with the original dominion government proposals as modified by the discussions at this conference today and the concessions which these discussions have evoked, and by such further discussions as may be in line with the suggestions which have been made at this plenary session today by preceding speakers, and, no doubt, by some of those who will follow.

Now, sir, the Manitoba government is fully in favour of concluding an agreement based upon the dominion's proposals, modified in the manner I have suggested, not because they meet the views of the Manitoba government in every particular, but because of the two alternative courses of action to which our choice now is limited. In our judgment the conclusion of such an agreement would be a much better choice both for Canada and for Manitoba.

Now, the merits of concluding an agreement or not concluding an agreement have been discussed at considerable length, and many times during the course of our deliberations; and I therefore have no intention of taxing the patience of the members of the conference by any further lengthy discussion at the present time. But, perhaps, I may be permitted to emphasize or to summarize very briefly why Manitoba is so strongly in favour of reaching an agreement rather than not reaching an agreement at the present time.

IF AGREEMENT CONSISTENT WITH DOMINION PROPOSALS IS REACHED

1. Public Confidence:

Canadian democracy will have demonstrated that it can deal effectively with a difficult and complex issue.

2. Certainty:

Agriculture, labour, business, the whole body of Canadian taxpayers, and the federal, provincial and municipal governments will be able to make and to implement their postwar plans, and move forward into the future with confidence.

IF NO AGREEMENT IS REACHED

Lack of Confidence:

Confidence of Canadians in the capacity of public men and the efficacy of our democratic system will be seriously impaired, and encouragement given to subversive forces.

Uncertainty:

Canadian citizens and organizations, including all levels of government, will be left in the present condition of uncertainty and frustration.

3. Unemployment Relief Reform:

Provincial and municipal governments will be definitely relieved of the major portion of the burden of unemployment relief.

4. Pensions Without Means Test:

Canadians aged 70 years and over will receive an Old Age Pension of \$30 per month, without Means Test, at the sole cost of the Dominion Government.

5. Single Taxation:

Canadian citizens will pay corporation and income taxes and succession duties to a single tax authority, namely, the Dominion Government; will file a single set of tax forms, and will be relieved of multiple provincial taxes under these headings.

6. Equalization Services:

Canadians, regardless of the province in which they live, will receive more nearly equal governmental services.

7. Equalization of Tax Burden:

Total burden of federal, provincial and municipal taxes borne by Canadian citizens will be more nearly equal, regardless of the province in which they live.

8. Improved Provincial Finances:

Disparity in financial capacity between the provinces will be more nearly equalized, with the results that the financial positions and the credit of the provinces, and of Canada, will be strengthened.

9. Constructive Tax Policies:

Burden of corporation and income tax can be managed in a manner designed to encourage high employment.

10. Favourable Business Environment:

Dominion-provincial relationships in matters of public finance will encourage rather than discourage enterprise, investment, consumption and sales, and thus promote production and employment.

Unchanged Relief Administration:

Primary responsibility for the handling and financing of unemployment relief will be left with the provincial and municipal governments in the uncertain and unsatisfactory position in which it was during the depression.

Means Test Pensions Unchanged:

Old Age Pensions will continue subject to a Means Test and jointly financed by provinces and the Dominion Government.

Multiple Taxation:

Canadian citizens will pay corporation and income taxes and succession duties to the Dominion Government and to as many provinces as have a tax claim; and will have to file multiple sets of varying tax forms.

Inequality of Services:

Canadians will continue to be penalized or benefited in regard to the educational, health, social welfare and other governmental services which they receive, depending upon the province in which they live.

Inequality of Tax Burden:

Canadians in certain provinces will pay, upon the same level of income, much higher provincial taxes than their fellow Canadians in other provinces and yet receive in most of such cases less adequate governmental services.

Unsatisfactory Provincial Finance:

Financial standing of a majority of the provinces will be seriously and adversely affected if they are forced to support their responsibilities by superimposing provincial income and corporation taxes upon the continuing high level of federal taxes in those fields.

Un-coordinated Tax Policies:

Action taken by one government to manage the burden of its corporation and income taxes to encourage high employment may be nullified by the un-coordinated and perhaps contrary action of other governments.

Unfavourable Business Environment:

Financial set-up, which for nearly ten years before the war contributed to unemployment and depression in Canada, will be continued in an equally critical period.

Now, Mr. Chairman, this list is a brief summary and it is not exhaustive of even the favorable results which would flow directly from the conclusion of the agreements. In addition to the results which would flow directly and immediately from the conclusion of the agreement there are many other results which, although indirect, would still be of very great importance to Manitoba. Amongst these latter are health grants and health insurance, for which Manitoba intends to qualify and which would help Manitoba to meet a pressing need and which would also be in accordance with the suggestions which were made this morning; public investments and developmental grants and the advantages of a more equitable system of taxation based to a greater extent upon ability to pay. We contend that these ten favorable results which would flow directly from the conclusion of the agreement in themselves outweigh any reasons which may be adduced against them.

I was much impressed, and I am sure that members of the conference were impressed with the extremely able and eloquent speech which was made by the premier of Ontario today, and I felt, in listening to him, that I was almost having some of my dogma shaken, and that he was going to persuade me to his viewpoints; but I am afraid, that upon reflection, I have to conclude that the viewpoint which he was so eloquently stating is somewhat dissimilar to the one which it is my duty and pleasure to state. His is the viewpoint of a rich, populous and powerful central province. Banking companies, banks, insurance companies, loan companies, trust companies, flour mills, steel companies and the newspapers, which function and do business in the province which I represent are all owned and controlled, and they have their head office in his province. Now, under these circumstances, with that flow of wealth, which very properly takes place by reason of the operation of the corporate process, we should not expect that his viewpoint and my viewpoint should exactly coincide. But, as he has said, and as the others have said, we come to the conference table as Canadians and I think we will serve the conference and our country better, as Canadians, if we are frank, as some of the preceding speakers have been, in presenting the viewpoint of our province, as a fact, before the conference, and as a fact with which it must deal.

Now, in the presentation which was made today, the Premier of Ontario stated that he could not see any reason why there should be any insistence upon the part of the dominion government that it should have the field of succession duties. We came to the conclusion, Mr. Chairman, back in 1937, after a careful examination of what seemed to us to be the causes of our difficulties in public finance, and rightly or wrongly, we felt that it was in the best interests of Canada that the succession duties of the country should be administered by the federal government.

In our brief before the Sirois Commission, we took that position and I think that I cannot do better than to restate it today. I do so because I want to supply Premier Drew with some of the reasons which seem to us to be good reasons for that shift of the tax field from the provincial to the federal sphere. I do not think I can do it better than by reading to this conference the letter of December 29, 1944, which I, as provincial treasurer of Manitoba, wrote in reply to a request which I had received from the Hon. Leslie M. Frost, provincial treasurer of Ontario, a request that we enter into a reciprocal agreement on the subject of succession duties.

With the whole of the first paragraph of your said letter, establishing that the overlapping and duplication of succession duties is a very serious cause of restriction in the development of the country, we are in complete agreement.

In addition to the abuses which you name, the present overlapping jurisdiction with regard to inheritance taxes, under which the assets or beneficiaries of a deceased's estate may have to pay taxes to nine provinces and also to the Dominion, results also in excessive administration, litigation and tax compliance costs, and in strikingly disproportionate division of inheritance tax revenue as between provinces. Not only is the division of these revenues ill-balanced as between the provinces, but certain provinces collect inheritance taxes on wealth which originates in other provinces. In your own case for example, the government of Ontario derives large inheritance tax revenues from wealth which originates in Manitoba. To illustrate this point, some time ago we made an inquiry as to how much inheritance tax revenue we obtained in respect of shares in the largest mercantile organization in the province of Manitoba. This organization has its headquarters in Toronto. We found that throughout the entire history of our Treasury, we had never obtained one cent of inheritance tax from that source. Doubtless this explains in part why in the period from 1926 to 1939, 85 per cent of all provincial inheritance tax revenue collections in Canada were made in Ontario and Quebec, although in these years these two provinces produced on the average only about 65 per cent of the national income.

These figures and the following table are from the Sirois Report, volume 2, pages 118 and 119, and constitute authority for the statement that great and disproportionate advantages are enjoyed by Ontario and Quebec in this regard.

I will not read it all, but it shows that the provincial shares of the total succession duties collected in Canada from 1926 to 1937, over an eleven-year period, were: Prince Edward Island, 2/10ths of 1 per cent; Nova Scotia, a little over 2 per cent; New Brunswick, 2 per cent; Manitoba, 2.9, nearly 3 per cent; Saskatchewan, 1.6; Alberta, 2.8; British Columbia, 4.9; Quebec, 27.4 and Ontario, 56.1.

All of these facts and others which might be detailed, make the present overlapping system one which impedes the free flow of investment capital into Canada. By encouraging large investors to confine their investment to the province in which they are domiciled, it impedes also the free flow of that capital between the various provinces of Canada. It gives the central well-to-do provinces a disproportionate part of the benefits of wealth which accumulated out of profits from nationwide enterprises.

These packing companies, banks, insurance companies, and flour mills and all these other vast corporate concerns which are represented in Manitoba are represented also in the other provinces of Canada. They are national organizations and the accumulated capital which they attract back into their head offices becomes subject to taxation there. It is for that reason that the Sirois Report says:—

And it may be reasonably assumed that every large estate in recent times has been at least in part accumulated out of profits from nationwide enterprises. Hence, whatever the situation when wealth was largely the result of local enterprise, it cannot now be assumed that the provinces have any moral right to the exclusive enjoyment of the tax on the ground that provincial policy has made possible the accumulation of large estates.

Indeed in many cases the Treasury of one province collects succession duties upon wealth which was created out of the natural resources of other provinces, our mining companies, for example, lumber companies, and water resources.

The present overlapping system by leaving the collection of a large part of inheritance taxes in the hands of the provinces, leaves it with a taxing authority which has no power to deter citizens of Canada from establishing domiciles outside of Canada, in the Bahamas, in Bermuda, in Florida and other places, for the purpose of escaping liability from all provincial inheritance taxes.

You and we are in evident agreement upon the existence of overlapping and duplication in the collection of succession duties, and that evils obviously result, but we find ourselves in disagreement with your proposal of reciprocal agreements as a remedy.

Premier Drew has given the recent history of a recently concluded agreement between Ontario and Quebec. The history I am now relating is an older history.

The history of these reciprocal agreements between the provinces does not indicate that they are likely to be either adequate or permanent.

That they are not likely to be permanent is indicated in the evidence at the hearings of the Sirois Commission in Toronto (see evidence pages 7667 to 7669) that following the abrogation by the province of Alberta of the agreement with Ontario, Ontario denounced not only the Alberta agreement but the agreements with all of the other provinces, and there followed the destruction by other provinces of the whole system of reciprocal agreements that had been laboriously built up.

We suggest with respect that reciprocal agreements are not adequate because they do not touch the main substantial abuses of the present overlapping Succession Duty Act administration. We suggest instead the following remedies in the following order of preference:

These were the remedies which we suggested when this conference was pending.

1. That the provinces should withdraw entirely from the inheritance tax field in favour of the dominion, upon condition that the dominion provides the provinces with other compensatory revenues or another form of compensation."

That letter was followed up by a subsequent one on February 7, 1945, in which we said this:

We concur in your opinion that no final and satisfactory arrangements can be made to establish taxation in Canada on a sound and equitable basis unless and until a dominion conference is held. We agree also that this conference should be held as soon as possible. Yet we think that under all of the existing circumstances it is on balance wiser to delay the conference until after the impending federal election shall have been held. Once this election has taken place, however, it surely is of the highest order of importance that the dominion-provincial conference should be convened without further delay.

We are anxious to take any steps which will increase the likelihood of the success of the dominion-provincial conference. Manitoba's position, however, with regard to your proposal for reciprocal agreements with respect to succession duties is this. As matters now stand we consider that the Manitoba Treasury is, in respect of the collection of succession duties in Canada, at a distinct disadvantage, and that the conclusion of the reciprocal agreement which you propose would intensify that disadvantage.

One can very easily see why that should be so because, apart from any corporate ownership, there are far more investments on the part of Ontario people in Manitoba than vice versa, and the result of signing an agreement of that sort would be that we would be starting out in a position of disadvantage and would be granting more exemptions to a central province than they would ever get from Ottawa.

The suggestion might be made when did Manitoba or the Manitoba Treasury become an authority upon the subject of which government should have the succession duty field, but the Sirois Report, the report of a body which went into all these matters with more care and more competence than any other body in Canadian history has this to say. I should like to read a short introductory paragraph which explains the very reason for a recommendation which they make that this field should be turned over to the exclusive control of the dominion government. They state:

In 1867 there were very few large fortunes in Canada, and such concentrations of wealth as did exist were largely local in origin and in the form of local property—land, merchandise, shops, small saw-mills, flour mills, etc. The joint stock company with its attendant characteristics of large scale enterprise, widespread ramifications, and narrow concentration of wealth in security form, was as yet little developed. The coming of the railway greatly altered the situation, both directly and indirectly. To carry out projects, so tremendous in relation to the times, involved pledging the credit of the whole country, but the profits and control were concentrated in a few hands in a few localities. As better transportation facilities made possible specialization and industrialization (and a huge increase in production and wealth), big fortunes, which were in large part based on and made possible by the new national economy, grew and became increasingly concentrated in a few growing metropolitan areas. The evolution of this process and its important implications to succession duty taxation have been noted in various places in Book 1.

Then they go on to review the shortcomings of provincial administration, overlapping, duplication, increased litigation and costs of tax compliance, the difficulty in encouraging American investment because any one province is incapable of satisfactorily forming treaties to avoid duplication as between Canada and the United States. They come finally to the conclusion, as I have stated, that the field should be turned over to the dominion government.

Mr. MACKENZIE KING: This is a convenient place to break off. We shall adjourn until tomorrow morning at 10:30.

The Conference adjourned at 6 p.m., to meet again on Tuesday, April 30, at 10:30 a.m.

PLENARY SESSION — No. 6



DOMINION-PROVINCIAL CONFERENCE

Tuesday, April 30, 1946

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

DOMINION-PROVINCIAL CONFERENCE

SENATE CHAMBER, OTTAWA, APRIL 30, 1946

REPORT OF PROCEEDINGS

The Dominion-Provincial Conference met in the Senate Chamber at 10.30 a.m., the Prime Minister, the Right Hon. W. L. Mackenzie King, presiding.

PRIVILEGE—HON. MR. DREW

Hon. GEORGE A. DREW (Premier of Ontario): Mr. Chairman, before we proceed I think the correct practice would be for me to rise to a question of privilege on a matter that does affect this Conference. I find that in this morning's press, as well as in the press of late yesterday afternoon, direct issue is taken with a statement that I made to the Conference yesterday—and I would add that that direct issue is taken in a statement made outside this Conference. That statement is carried generally in the press throughout Canada. It starts on the front page of the *Ottawa Citizen* of this morning and I would like to read briefly from it because it has a very direct bearing on the public understanding of what is taking place at this Conference. I quote from today's *Ottawa Citizen*:—

A source close to federal social security plans said the Dominion has always planned to impose a tax to cover some of the cost of health insurance, pensions to the aged and other welfare measures, but so far it has not been possible to work out a definite tax rate.

The source was commenting on a statement by Premier George Drew of Ontario to the Dominion-provincial conference. Mr. Drew said the Dominion had suggested to the provinces a plan under which health measures and old age pensions would be financed by an additional tax of from three to five per cent on all incomes and a poll tax of perhaps \$10 to be paid by all persons 16 years and over.

No poll tax was ever proposed by the federal authorities, said the source, and no definite rate of taxation was set because the rate would depend on how much of the social security program was brought into force.

If the "source" alone were the person to whom I feel called upon to pay attention, even this would be very objectionable because it is the very sort of thing that led me to move the motion in the Coordinating Committee last Thursday that we should go into open conference. As you will recall, I said at that time that amongst the reasons why I thought we should go into open conference was to prevent this very sort of thing.

But the "source" is not left in doubt because here is the *Toronto Daily Star* of last night, with this headline: "Plan No Poll Tax—Claxton", and the *Toronto Daily Star* does not merely describe him as the source but mentions him by name.

Now whether the source be Mr. Claxton or any other bubbling spring of misinformation, I for one tell this Conference that it will move very much closer towards success if those who are attending it make their comments at the conference table and do not attempt to convey the impression outside that statements made here were incorrect. Incorrect statements will be made undoubt-

edly, even with the best intentions, by different people attending this Conference when discussing something suddenly presented to them. But if that is so, the time and place to correct any misstatement is here and now.

Since this matter has come up, and speaking to this point of privilege, in view of the impression conveyed by the minister primarily concerned with this matter, a wrong impression which has now been conveyed to the whole of Canada, I believe it is my duty to say very briefly exactly what the situation was to which I was referring and to correct Mr. Claxton's statement made outside this Conference to the press that a poll tax was never discussed by this Conference.

We all received last August the printed Proposals of the government of Canada, and at page 32 of those Proposals the health measures proposed and the financing of those health measures are set out, and it was made perfectly clear that the health measures and the old age pension and certain social security measures incorporated in these broad proposals put forward were something very desirable to the people of Canada and that they were not to be financed out of the exchange of taxing powers proposed but were to be financed by taxation of an entirely different kind. These two types of taxation have been indicated since then as well as in the proposals themselves. These two types of taxation are very clearly stated. They were, first of all, that the Dominion government would impose a new income tax on all people regardless of whether they had previously been taxpayers or not, a tax of from 3 to 5 per cent on all incomes, and the carrying out of the Dominion government's plan depended as well upon the provinces imposing a new tax which was suggested by the Dominion government as a poll tax, although not under that name. These are the words of the printed Proposals of the Government of Canada presented to the Conference last August. I quote:

"The agreement—"

Mark you, the agreement—not something to be loosely dealt with at a later time, but the agreement which was to carry out the whole plan.

The agreement should further provide for the carrying into effect of the total health insurance programme over a term of years, for a registration fee to be paid by or on behalf of every person, who has attained his sixteenth birthday and whose normal place of residence is in the province or area where benefits are provided

Nothing could be more definite than that. The proposal was a registration fee, which is a poll tax, a registration fee on an annual basis. That is what was proposed and it was described as a registration fee or a poll tax in our discussions in the Coordinating Committee last November; and when the "source" mentioned in the press, by whatever name, tells the public of Canada that a poll tax was never discussed I say that that statement is not true. I discussed the poll tax; others discussed the poll tax, and Mr. Claxton discussed a poll tax last November, and it was discussed again last January. It is true that different names were applied to it—registration fee, poll tax and other names. But the very truncated minutes of the Coordinating Committee last January make it quite clear that a poll tax was discussed because they say that the Premier of New Brunswick asked a question about this, and it was discussed for some time, and Mr. Claxton outlined the various methods open to the provinces, as follows:

1. Registration fee.
2. Nominal charges to patients.
3. Levies on municipalities.
4. Contributions from the Consolidated Revenue Fund."

That was something—not suggested to the provinces for carrying out something which they had brought forward—but it was to be part of the agreement to carry out these plans which were offered by the Dominion government.

What gives this matter special importance is that in his statement to the Conference yesterday morning Mr. King used these words in regard to the Proposals which he summarized:

The Proposals are interdependent and should be considered as an integrated whole.

And it is as part of that integrated whole that you must examine the very Proposals put forward in that statement given by Mr. King yesterday when he said that the Dominion was prepared to offer certain opportunities in regard to health, old age pensions, and so on, because they are part of that integrated whole. But what that statement does not say is that while, on the one hand, the offer is made to reduce the income tax—and I here interpolate that the income tax can just as effectively be reduced under the proposals made here yesterday by Ontario, Quebec and Nova Scotia as under the Dominion government's plan—it is not stated in here that as part of that integrated whole, the interdependent parts, the health and social security measures, are to be financed by (1) an overriding Dominion tax on all incomes of from 3 to 5 per cent. I emphasize that 5 per cent was mentioned in the discussions which have taken place; in fact, you will find in the files of every province that Mr. Claxton mentioned 5 per cent as the probable rate.

In so far as the poll tax is concerned, described as a registration fee but a poll tax nevertheless, I do not ask anyone to take my statement that this was part of the Dominion's Proposals, because Mr. Claxton, on October 5, 1945, wrote to Doctor A. Somerville, Assistant Deputy Minister, Department of Public Health, Edmonton, Alberta, as follows:—

DEAR MR. SOMERVILLE,—In Doctor Chisholm's absence I shall attempt to answer the question in your letter of September 10.

Registration fee. The Proposals—

Mark the words:

The Proposals of the federal government provide for compulsory registration and a registration fee but deliberately left open the question of the appropriate amount of the fee.

In view of the statement by Mr. Claxton which has gone out to Canada through the Press to-day I repeat those words:—

Registration fee. The Proposals of the federal government provide for compulsory registration and a registration fee but deliberately left open the question of the appropriate amount of the fee.

As to the appropriate amount of the fee, in the brief I read to the Conference yesterday, to which Mr. Claxton took exception outside this Conference, I suggested a fee of perhaps \$10. But the fact is that \$12 is the figure that was discussed at the January meeting and at the November meeting in the case of Ontario because it was pointed out then by the government of Ontario that the Dominion's Proposals would impose upon Ontario an added expense of \$50,000,000 outside of what the Dominion was going to pay for these new health and social insurance Proposals. If the poll tax was to take care of that—and that was suggested on page 32 of the Dominion government's Proposals as something to be incorporated in the agreement—in the case of Ontario the poll tax would have to be \$12.

That means that when the people of Canada read the offer of the Dominion government as presented to the Conference yesterday, it is necessary for them to understand and realize that the tax which is also set forth in this plan for the provinces abandoning the corporation and personal income taxes and other taxes in exchange for a fixed minimum per capita fee, has nothing to do with

the provision of the money for the health services, old age pensions and other social security measures, for these are to be financed by the Dominion government (1) by a new Dominion government income tax—and a rate of from 3 to 5 per cent but mostly 5 per cent has been mentioned by Mr. Claxton—and (2) that in order to carry this out in keeping with the Dominion's Proposals of last August the provinces are to impose a registration fee which we have at all times described as a poll tax, and which is a poll tax, and which in the case of Ontario would have to be \$12, not \$10. A \$10 figure was mentioned, but it is obvious that some of the provinces would be called upon to impose a higher rate.

There is the picture, and I repeat again that the statement given to the press which implies that what I said at the Conference yesterday morning is not correct was giving misinformation to the public of Canada which I am rising here this morning to correct. And in correcting it may I say this. If this Conference is to succeed it must proceed in an orderly manner, and if somebody makes a mistake here let us correct it here, and not go out and give a statement to the press outside, which seeks to befog the real issues before this Conference.

Hon. BROOKE CLAXTON: Perhaps a word in reply would be permitted to me in view of the remarks of the Premier of Ontario. In the first place I agree with him completely when he says that the Dominion's proposals from the outset contemplated that the social security provisions would be financed by contributions by the people of Canada, or in part by them. There has never been any mystery about that. It was indicated from the start, and anyone who knows anything about social security measures in other countries would expect that to be the case.

I might refer to page 7 of the Dominion Government's August Proposals in which it is said that among the objects to be attained by the proposals there was:

Fourthly, to provide, on the basis of small regular payments against large and uncertain individual risks, for such hazards and disabilities as unemployment, sickness and old age.

Then in the provisions for health insurance it was expressly stated that one of the conditions of bringing into force a health insurance scheme would be an agreement by the provinces to obtain "a registration fee to be paid by or on behalf of every person, who has attained his sixteenth birthday."

Further at page 42 of the Dominion Government's Proposals it is indicated that the implementation and financing of old age pensions and health insurance is to be met in part by contributions by the people by one means or another. The means was not expressly indicated there, because this was very early in the day and it remained to be worked out. But it was very clearly stated then and since that this formed part of the Dominion Government's Proposals from the start. There was no mystery about them and never any doubt as to what they meant.

Coming now to the references which the Premier of Ontario has made to the remarks which have been ascribed to me in this morning's press I can say this, that following our first meeting yesterday there did appear in the press a number of statements and headlines which were misleading. For that no person in this Conference was responsible, and I do not mean to suggest that anyone was. We have no control over headlines. But the headlines were misleading, and in consequence of that I was asked, as I suppose other people were asked yesterday afternoon, if it was true that it was part of the Dominion's plans that a poll tax of \$10 be introduced. It is curious to note, since Mr. Drew has raised the point, that despite the fact that others have not always been so scrupulous in making comments on the Conference as it went along, I did tell the members of the press who spoke to me that I thought that that matter should be dealt with

on the floor of the Conference, and that we would have something to say about it when the opportunity occurred. Also I referred the press to the parts of the Dominion Government's Proposals where he could find out what was proposed, and when I was asked expressly whether the Dominion government had proposed a poll tax of \$10 I said that it had not done so, which is of course the fact. It has not done so at any stage of the proceedings. It does not form part of the Dominion government's plan.

It has been made plain right through with respect to health insurance that the manner in which the share of any province entering the scheme would be financed would be decided by the province. The only point that we thought it was desirable to include, and which was included in the plan, was that a registration fee should be charged. It was made perfectly plain at the meetings of the Coordinating Committee and the Economic Committee that we had no interest in saying what the amount of that fee should be; it might be anything from one dollar up.

With regard to the suggestion that the security tax had been fixed at 5 per cent, I of course do not fix the taxes which the people of Canada have to pay. What did occur in the discussions was that when we were asked the possible amount that the security tax might total we gave illustrations from the experience of New Zealand and Australia, where they had taxes as high as seven and a half per cent payable on the total income. My recollection is, Mr. Ilsley will remember the figure we mentioned—a possible 3 per cent tax, but it was very clearly indicated that the matter was quite open, as well as the form of the tax. Whether there should be such a tax, the form of the tax, the rate of the tax, the incidence of the tax and the people who would pay it—all these questions were quite open and would depend upon the kind of agreement that was worked out and upon the arrangements which might be made with the provinces.

When Mr. Drew's statement mentioned a 5 per cent tax, he must have had in mind that this was the top limit that anyone at any time had ever contemplated, but the rate which we discussed as more likely was a rate of 3 per cent. But as I say the matter was left completely open because we were not in a position to say what would be necessary until we knew what we had to meet.

Finally with regard to the suggestion that these social security measures would be entirely financed by a special tax, it should be plain that they would require a great deal more money than a tax of 3 per cent even on all incomes could possibly raise. Any social security tax would be a contribution made by the people of Canada for something they were getting. It would not pay the whole cost. It would, however, give them the feeling that they were paying for something which they were entitled as of right, for example old age pensions payable as of right at the age of seventy.

With regard to an old age pension payable on a means test basis; the situation would be different. In every country where they have pensions or health insurance provisions or any other social security benefits payable as of right they are payable in consideration of a contribution by the citizen who receives these benefits. I know of no exception to that rule.

It has come as a matter of some surprise to me that these things should have been treated in some of the press as they have been. That the press should have used my name in connection with this is not a matter of concern. I made statements along the line of what I have said here, statements that it was desirable should be made to clear up a misunderstanding, as any representative of the federal government would do here, and I am glad of this opportunity to speak at the first moment that the matter is brought up here.

Right Hon. J. L. ILSLEY: There is just one statement made by Mr. Drew to which I wish to refer, and that is that the suggested transfer of the tax fields to the dominion has nothing to do with the financing of the social security

programme. I take exception to that statement because the programme, so far as the dominion is concerned, will have to be financed out of consolidated revenue fund. The consolidated revenue fund is directly connected with the financing of the proposals that they are making, and therefore I take exception here, not outside, to the statement that our tax transfer proposals have nothing to do with the financing of our social security programme.

Mr. DREW: I naturally concede that the ability of any government to carry out any undertaking is part and parcel of the general stability of its economic and financial position, and to that extent certainly the payments that must come out of consolidated revenue are affected by the programme. But Mr. Ilsley will remember perfectly well that when he was asked in November last and again in January if the health proposals could be separated and dealt with on a different basis it was agreed that that could be done. Mr. Claxton will not question my statement that we were ready to proceed with the financing of other matters such as public investment on the basis of tax transfers, but it was clearly understood that the health measures and the old age pensions could be dealt with separately. I do not want to leave any impression that the reference to the poll tax has been brought about by any incorrect headlines in the press.

The Ontario proposals presented to this Conference early in January dealt with this question quite frankly. I will read exactly what we said:

While the Dominion government has suggested that it intends to finance its contribution to health insurance by a social security tax it proposes that the provinces finance their share of the cost of health insurance by the collection of a fee or tax to be paid by every person over sixteen years of age. This, as has already been pointed out, is in effect a poll tax which is not related to earning capacity or to whether or not the taxpayer is employed.

If there is any responsibility for the public use of the word poll tax we accept that responsibility because we stated right there that it was a poll tax in the Proposals we put forward, and which referred to an earlier statement. That earlier statement was in November when we dealt with and discussed this question. It was fully discussed and the unattractive features of the poll tax were then mentioned. I readily concede to Mr. Ilsley that the ability of any government to carry out its undertaking is part of its broad economic picture, and that applies to the provinces as well.

Mr. CLAXTON: Since Mr. Drew has quoted his own reference to poll tax from his brief and as it might be hoped that silence on our part now would amount to acquiescence—

Mr. DREW: I did not make that statement, and that is one reason why I am glad we are in open conference. I said that I did not want any impression conveyed that the use of the word poll tax publicly was the result of any mistake or any misleading headlines but that we had referred in our meetings to a poll tax by the name of poll tax.

Mr. CLAXTON: The point I was making was that Mr. Drew did refer to the fact that the statement in his brief was made in January, from which the argument might be drawn that not having been corrected since it must be taken as a correct statement of what we had proposed. To say that liability for this payment is "not related to earning capacity or to whether or not taxpayer is employed" is not a correct statement. It was very clearly indicated in the meetings of the Co-ordinating Committee that the amount of the registration fee would be left entirely to the provinces, and there was a good deal of discussion by the provinces of various experiences which they had had in collecting different types of fees. Certainly the Dominion government did not suggest that liability for this was not related to earning capacity or to whether or not a taxpayer was employed.

Mr. DUPLESSIS: I do not want to interfere in this discussion but I was present at all the sittings and I declare most emphatically that a head tax was proposed to be based by the provinces on every person sixteen years of age, and I remarked at that time that we were opposed to that in the province of Quebec.

PROVINCE OF MANITOBA (*Continued*)

Hon STUART S. GARSON (Premier): Before we adjourned last night I had briefly reviewed the position which Manitoba has consistently taken during these negotiations and I had said the Manitoba government is strongly in favour of concluding an agreement based upon the Dominion proposals—not because they meet the views of the Manitoba government in every particular—but because among the alternative decisions which it is possible for this conference to take, we are convinced that a decision to implement an agreement along the lines of the Dominion proposals as finally modified, would be much the best both for Canada and for Manitoba.

I had then presented in very brief form, ten of the major favourable results which would flow directly from the conclusion of such agreement and had said that in our opinion these ten favourable results in themselves outweigh any reasons which may be adduced against the Dominion proposals.

Having thus stated Manitoba's position, I turned to a review of certain of the arguments which have been raised in opposition to an agreement consistent with the Dominion proposals. The first of these matters was the proposition that Succession Duties should be exclusively assigned to the Province. Having dealt with this at considerable length and after having pointed out that we thoroughly agree, both for economic and administrative reasons with the recommendation of the Sirois Commission that Succession Duties should be a matter for the Dominion Government, I now turn to other points which have been advanced in opposition to an agreement of the type which we support.

PROVINCIAL—FISCAL AUTONOMY

Certain of the preceding speakers have touched upon one of the most important and basic points that we have to consider, namely, the financial responsibility of the Provinces under a system of heavy subsidies. Since Manitoba was the first province to make representations to the Conference on this point, since this quotation is used in support of an Ontario argument which reaches an almost diametrically opposite conclusion from that which Manitoba has reached, and stated, we perhaps should restate our views at sufficient length to dispel any misunderstanding as to what they are.

Let me acknowledge at once that the quotation is justly and aptly used by Ontario. If one may be forgiven some gentle irony concerning his own efforts, perhaps I might say, facetiously, that a profound truth is at home in any context.

The Ontario brief, presented yesterday, says that the whole system of subsidies is wrong and should be brought to an end just as soon as a complete and exhaustive analysis of our tax structure can be carried out for the purpose of establishing a new tax structure in Canada. In the Sirois Report we have as complete and exhaustive an analysis by as competent a body as we are ever likely to get from any other source. It cost Canada a great deal of money. This Report recommended that our national tax structure could be made much more serviceable by the Provinces assigning to the Dominion Government the fields of income and corporation taxes and succession duties. This recommendation is now opposed by those who tell us, almost in the same breath, that we should get a new analysis before we have made any attempt to implement the recommendations of the best Commission which has considered such matters

since Confederation. Somehow, this does not make sense. Why not let us implement the recommendations of one costly inquiry, before seeking new recommendations to pigeon-hole.

We do not believe that the provinces necessarily lose their financial responsibility under a system of heavy subsidy. The first thing to be noted is that the subsidies we are talking about are outright statutory grants to which no conditions are attached and which give no supervisory powers to the Dominion. It is admitted that if the moneys provided by the Dominion Government exceeded provincial needs, which in our experience is extremely unlikely, there would be a danger of the provinces losing financial responsibility. If, on the contrary, the Dominion subsidies were measurably less than provincial needs, financial responsibility would be retained. Financial responsibility is marginal in character in the sense that it arises in that margin of the provincial budget which is not taken care of by existing estimated revenues. Suppose, for example, that Manitoba's normal revenues—and here I am quoting from the brief which the province of Manitoba submitted to this conference on August 7, 1945, and which appears in the report of the proceedings at page 162:—

Suppose, for example, that Manitoba's normal revenues are equal to her normal expenditures. The result is a balanced budget. Suppose now that there is a demand for an increase in the grant to education. Ordinarily, in such a case, financial responsibility arises from the judgment which the government must exercise as to whether it is better to let education do without a grant or to increase an existing or impose a new tax, or curtail some other provincial service. Clearly if all that the provincial government has to do is to pay the increased grant to education and send the bill for it to the Dominion Government, there is no financial responsibility. But if with all the help the province gets from the Dominion Government, however considerable it may be, there is still some margin of its budget that it must take care of by a provincial attempt to get the necessary additional revenue from a provincial field of taxation, the province will retain a sufficient measure of financial responsibility to assure prudent administration. This is so because all of the provincial decisions which make for financial responsibility or otherwise, take place in a margin beyond a budget which is usually otherwise in balance. They are made in a contest for the government's favour between a specific increase in expenditure on the one hand, and the considerations which it is necessary for the government to take into account in order to provide funds with which to meet that specific increase in expenditure, on the other.

Thus, if the Dominion Government's normal assistance to the provinces plus the provinces' other revenue resources is measurably less than the provinces' normal expenditures, there should not be any practical loss of financial responsibility even although the Dominion assistance is substantial.

One thing that financial responsibility does involve, however, is that the provinces have powers of taxation. In most cases it is only by the exercise of its powers of taxation within the limitations of an efficient tax system to raise the money necessary to take on the specific new expenditure which appears in the margin outside of the normal budget, that financial responsibility is maintained. If, therefore, the provinces surrender to the Dominion the field of direct taxation, and their other tax revenues such as gasoline taxes are already utilized in the support of the present normal budget of the province, the province, if it is going to retain its financial responsibility, will have to have a substitute tax field to take the place of the field of direct taxation which will be surrendered to the Dominion Government if the present proposals go through.

This is where the quotation attributed to me by the Ontario brief becomes relevant. The second part of the quotation is:

"If there is to be fiscal autonomy there must be real and not illusory taxing powers."

In other words, if the provinces are going to be able to finance these marginal expenditures they must have a new field of taxation which will produce revenue in sufficient volume.

I suggest that taxes such as we have been discussing, like the parimutuel tax, the stock transfer tax, electricity taxes and these minor taxes, do not and cannot, for at least six of the provinces—and I should imagine for every province—produce revenue in sufficient volume to provide a province with any real scope for supporting its marginal expenditures. The retail sales tax, on the other hand, the power to impose which was unanimously asked for by the provinces and will be granted by the dominion if agreement is reached, is not in any sense an illusory taxing power. Whatever its shortcomings may be, the provinces, if they had the power to impose this tax within the limitations of an efficient tax system, would possess a large measure of fiscal autonomy in that their governments would then be in a position to undertake any new expenditures which seemed to them desirable and to raise the money to pay for such expenditures by provincial taxation, without having to ask the consent or advice of the dominion or any other province. In our opinion the real essence of provincial responsibility is this ability of the people and government of any province to undertake additional marginal expenditures and to raise additional marginal revenues without meeting any conditions laid down by other governments.

ONTARIO FORMULA

I should now like to discuss, Mr. Chairman, from the standpoint of the province of Manitoba, the formula proposed by the government of Ontario for the purpose of computing the annual per capita subsidy to be paid to each province.

Naturally, in a conference such as this, we all desire to examine most exhaustively any suggestion which seems to offer grounds for a compromise which will bring success, and in that spirit we should like to examine the latest suggestion of the Ontario government. But naturally, before we accept it even in principle, we wish to understand it. I hope we can be informal for a moment or two because I would ask Premier Drew, or some of his entourage, to correct me if I am wrong, since it is highly desirable that we should be clear on this point. Our understanding is that the Ontario formula is in substance identical with that of the dominion except that the annual per capita payment under the federal formula is \$15 whereas under the Ontario formula it is X. Am I right in that regard—am I right in substance?

Mr. DREW: Our formula is quite plain and speaks for itself, and it is not identical with the dominion's formula. It has a direct relation to the gross national production and population, using the 1941 figure, which was the original figure used by the dominion, and not the 1942 figure, which was suggested at a later date.

Mr. GARSON: In one case it is \$15 and in the other it is X, and the point I wanted to get at was how to determine X dollars, because that is all-important to the other provinces. Now, associated with that formula, Ontario makes this suggestion: "We want to keep the succession duty field, the gasoline tax, the amusement tax, the parimutuel tax, the security transfer tax, the electricity tax." But, as I understand their proposals—and again I hope that Premier Drew will

correct me if I am wrong—in fixing the value of X Ontario is prepared to have the per capita subsidy or value of X reduced by the value of these taxes which are given up by the provinces.

Mr. DREW: Our statement is perfectly clear.

Mr. GARSON: I am sorry it is not clear to me and I do wish to understand it, because it makes a great deal of difference, in the exercise of our judgment in the matter if we are sure that our conception of what it means is the same as Ontario's understanding of it.

Mr. DREW: Since the question has been put directly to me, I may say that, in my opinion, the formula is extremely clear. Our statement is extremely clear, and if Mr. Garson or anyone else from Manitoba will sit down with our experts during the lunch hour we will show them exactly how it works.

Mr. GARSON: I shall be delighted to take advantage of that offer. Indeed, I would have seized that opportunity before now but for the fact that I was busy preparing my remarks. However, the fact that at the moment, unfortunately, I am not clear on the point makes it necessary for me to discuss some of the other aspects of the matter on a hypothetical basis. However, I do not expect that any embarrassment will arise in that regard. Speaking hypothetically, if the X dollars of the Ontario formula is to be arrived at by deducting the value to Ontario of the taxes released by the dominion, the question which is of supreme importance from the standpoint of the small provinces is whether that credit on X is to go back to the dominion in respect of an individual province, or whether the total value of the taxes for which credit is to be given to the dominion government—that is, succession duties, gasoline taxes, and so on—is to be calculated and then taken as a flat rate applicable to all the provinces.

Let me take a concrete case, which perhaps is a little difficult to explain. Let us suppose an agreement is reached in accordance with the Ontario suggestion, that the dominion give up succession duties, gasoline taxes and all these other taxes, and the value of these taxes in Ontario is \$8 per capita—I am still speaking hypothetically and therefore I do not want any objection raised to the use of the figure \$15 as the dominion's figure—and that \$8 is deducted from the \$15, that would leave the value of X for Ontario as \$7 per capita.

But in the case of Manitoba the value of these taxes on a per capita basis might be only \$4. If X is to be arrived at individually among the provinces, \$15 minus \$4 would leave Manitoba with an X value of \$11. If that is the interpretation—and I am sincere when I say that I do not know whether it is—then I would point out that there is not very much difference in principle between an arrangement such as that and the proposal which the dominion government has made with regard to the question of adjustments in respect of succession duties in those provinces that remain in the succession duty field.

If, however, the other alternative is the case, if the total value of all these taxes is estimated, let us say, at \$50,000,000 per annum, and that is taken to be roughly a quarter of the \$15 per capita value which has been set by the dominion for the subsidy, then the \$15 would have to be reduced by about twenty-five per cent of its amount. This would bring it down to between \$11 and \$12 per capita. Then the problem would arise for the small provinces as to whether the reduction in their per capita subsidy might not cause them to lose, say, \$2,000,000 a year in subsidy payments, only to discover that, by increasing the provincial rates of succession duties, gasoline taxes and stock transfer taxes as well as parimutuel taxes, amusement and electricity taxes and all these other taxes, they could recover in their province, from the tax resources of the province, only \$1,000,000. If that were the case they would be \$1,000,000 out of pocket on the transaction, in addition to having had the difficulty of increasing these tax burdens.

To a province like Manitoba, and many of the other provinces, that is a matter of real concern. How can we intelligently judge in a matter involving millions of dollars unless we know with exactitude which of these two alternatives is the case?

If the second is the case, I cannot see what advantage there would be for a small province in embarking upon a scheme in which, as a reward for the reaction and unpleasantness resulting from increasing five or six taxes, the province would lose a large amount of revenue.

I regret having had to go into a painful detail like this, Mr. Chairman, but one of the penalties of an open plenary session is the necessity of bringing out facts of that sort.

AGREEMENT AND AFFIRMATION OF PROVINCIAL RIGHTS

Reference here should be made to certain arguments in opposition to the conclusion of an agreement. It is said, for example, that an agreement will jeopardize provincial rights enjoyed under our constitution, because the provinces will be transferring certain rights of taxation to the Dominion Government. We suggest, on the contrary, that the constitution in the clearest possible language gives to the Dominion Government rights of taxation which are so unlimited that it is quite impossible for the provinces by agreement or otherwise to increase or diminish them.

Under the agreement the provinces would covenant not to use their own rights to impose provincial corporation taxes, income taxes and succession duties for a period of three years. For this covenant the Dominion would pay the Provinces annually nearly 200 million dollars being an amount considerably in excess of the sums which the provinces have ever realized from these taxes in the past. The payment of this money by the Dominion under the agreement would be an affirmation, rather than a denial of these provincial rights of taxation.

You do not rent a house to a man under a lease and then deny that you own the house.

If the provinces, after three years of experience under the agreement were not satisfied that this arrangement would be in their best interest, they are under no obligation to renew it. We affirm that in no way can it be said that this is an abandonment of provincial rights, or we would not participate in it.

PROPER ALLOCATION OF TAXING POWERS INFLUENCES TAX BURDEN

It is sometimes argued that "there is only one set of taxpayers. They are the people who live in the nine provinces of Canada. They don't pay any more and they don't pay any less because taxes happen to be collected through one channel or the other. The only thing that matters is what the total amount of taxes ultimately amounts to".

The implications of this argument are that since we cannot reduce the total tax burden of Canada by any re-allocation of taxing powers between the provinces and the dominion, there is nothing to be gained by such re-allocation. While on its surface this argument has some plausibility, surely it is quite fallacious. Even if it were granted that a wise re-allocation of taxing powers would not reduce the total tax burden—and while it is not necessary for our present argument to critically analyse this proposition, it is too, at least debateable—but even if the tax burden as a whole were not reduced by re-allocation, surely it is self-evident that it makes a very great deal of difference whether this total burden is met out of a large or a small national income and whether the burden is equitably distributed amongst the citizens of Canada.

Surely any realistic appraisal of our national tax burden must also take into account the size of the national income out of which it is paid. Surely any conditions which reduce or hold down our national income, by that very fact

increase the weight of a given national tax burden. And what is true of the national burden is true also of the citizens' tax burden. Thus while tax burdens are difficult to measure with complete accuracy, perhaps the least inaccurate measure is to consider the tax burden as a percentage of the income out of which it is to be paid. Obviously, a tax of \$50 paid out of an income of \$1,000 is a much greater tax than \$50 paid out of an income of \$1,500.

Since the cost of a given quantity of governmental services—and I suggest that this is the only minor respect in which the original proposition I am trying to combat carries any accuracy—will tend to be relatively constant, the real issue which this conference must face, is that of re-allocating governmental functions and taxing powers in such a way that the Canadian people have the highest possible income after paying the total costs of government in Canada. To argue that this allocation of taxing powers has no effect upon the income of the people of Canada is to fly in the face of recorded facts.

For example, in the 1930's it was the undue reliance upon indirect taxes on staple articles of every-day use which so seriously curtailed the quantity of goods which could be purchased by families with low incomes and which thereby reduced sales, production and employment, and thus greatly retarded Canada's recovery from the depression. This undue reliance on indirect taxes was the result of the Dominion's desire to leave to the Provinces the field of direct taxation.

FEDERAL SYSTEM NOT QUESTIONED

It has been suggested that this agreement will destroy our federal system of government and that in consequence we should end up with a unitary system, with only the federal government in Canada and no provincial governments. In the first brief presented by Ontario in January there is an admirable survey of the relative merits under Canadian conditions of the federal system of government, as opposed to the unitary system. With the cogent arguments—and they are excellent ones—which the Ontario brief marshals in justification of the federal as opposed to the unitary system of government for Canada, the Manitoba Government is in complete agreement. We would go even further to say that never in Canadian history, and certainly not now, could the federal system of government be dispensed with, or even in any degree jeopardized, except to the grave disadvantage of Canada and the Canadian people. No government in Canada, federal or provincial, has ever questioned the wisdom of maintaining unimpaired the Canadian federal system of government. We therefore question the relevancy—not the excellence but the relevancy—of an argument in favour of a federal, as opposed to a unitary system of government for Canada, in proceedings which from their beginnings have been continuously concerned with the steps which should be taken to preserve the Canadian federal system by remedying those defects which it has acquired in the 80 years of change during which it has been serving the Canadian people. What the Dominion Government of 1937, in appointing the Sirois Commission was trying to do, and what we today are trying to do is to make more effectively available to the Canadian people the virtues of our federal system which have been so eloquently described in the Ontario brief.

EFFICIENT FEDERAL SYSTEM ESSENTIAL

Surely no one questions that the federal system of government in Canada worked badly during the last quarter century, and particularly during the 1930's. Indeed the terms of reference of the Sirois Commission indicate that the problem which was assigned to them for study was not due to any inherent deficiency in the federal system itself as devised by the Fathers of Confederation, 80 years ago, but was due to those disabilities which 80 years of change in

economic and political thought and in circumstances had created in the environment in which the Canadian federal system must operate. These disabilities are not inherent. It is not impossible to remedy them. They are not in any sense indications that under Canadian conditions the federal system is less efficient than the unitary system of government, and no responsible person considers that these disabilities have made it necessary to abandon the federal system in favour of a unitary system of government. On the contrary the efforts of every Canadian government have been directed, as are ours today, towards remedying these disabilities, to the end that our federal system shall produce in practice, results which will be in keeping with its theoretical virtues.

Two of the main defects which were not in the Canadian federal system at the time that it was conceived and created, but which have developed as a result of time and changes, are:—

1. The excessive disparity between the financial capacities of the Provinces. This disparity has left Canadians in certain Provinces receiving much poorer provincial services and paying much higher provincial taxes than Canadians in other Provinces.
2. The business-destroying, depression-creating tax structure of Canada which resulted from the Dominion Government's attempts to obtain an inordinate proportion of its tax revenues from indirect taxes. This undue reliance on indirect taxes reduced purchasing power and thus reduced consumption and sales of basic commodities. It thereby reduced production and created unemployment. It bankrupted marginal enterprises by taxing costs regardless of whether such enterprises were making profits and thereby discouraged enterprise, investment and employment.

That these two main defects are not inherent in the Canadian federal system is indicated by the fact that that system operated for several decades without any sign of them appearing. These defects are products not of the Canadian federal system as such, but of the great changes in Canadian political and economic thought, in Canadian conditions and in the world environment which have occurred since 1867.

Thus the problem today, as the Ontario brief rightly says, is not that of whether we should replace the Canadian federal system with a unitary system of government. It is the opposite of this. It is the problem of how we shall make the Canadian federal system, which worked so badly in the 1930's, work so well that the Canadian people will wish to retain it. For we take it to be self-evident that the Canadian people will not wish to retain a system which worked as badly as ours did in the 1930's. Therefore, we who wish to retain our federal system as the only proper system for Canada will also wish to institute those reforms which will make it work well, in order that we may have an economy which will function properly and create prosperity and employment, rather than one which creates unemployment and depression. The surest way to introduce unitary government in Canada is to leave the federal system functioning as badly as it did in the 1930's, and the surest way to make the federal system function as badly as it did in the 1930's is to fail to remedy the unbalanced, unjust and impractical tax structure of Canada, and leave the less-favoured provinces in the position of financial incapacity in which they were at that time.

RETURN OF TAX FIELDS TO PROVINCES NO SOLUTION

What the Provinces with large taxable resources tend to overlook is that while to them the power to tax is synonymous with revenues, the fact is that in a majority of Canadian Provinces, the power to tax is not synonymous with

revenues, because they lack adequate taxable resources. To the extent that a Province lacks taxable resources, its taxing powers are valueless, and I cannot emphasize too strongly that it was the plight, not of the wealthy Provinces, but of those which lack adequate taxable resources which was the occasion of the whole chain of events which began with the appointment of the Sirois Commission and has culminated in this Conference.

It was not a question of the difficulties confronting Quebec and Ontario, but the difficulties of Manitoba, Saskatchewan and the Maritime provinces. It is our plight which must be cured, if there is to be health in Canadian public finance. It has been said—not by us—that if the Provinces surrender their tax fields for a money consideration, they will put themselves in a straight-jacket. We in Manitoba are in a straight-jacket now, and the extent of our freedom of action is indicated by the amount of money we had to borrow for relief purposes from the Dominion Government. Almost as a mendicant, we had to come to borrow for relief purposes during the depression, after we had imposed taxes and economies which have no parallel in this country.

We imposed high taxes in the depression before high taxes were the vogue. We imposed a wage tax without genuine exemptions. A single person with \$480 a year or over had to pay a tax, and a married man with \$960 or over; and if a married man had six children and \$1,200 a year he paid us \$24. We even went to extreme lengths, making three cuts in civil service salaries and in our own salaries—twenty-five per cent. Could anyone go further? So that it was not, as I fear our eastern friends sometimes suppose, a case of extravagance on our part. And here I should like to record that we have never defaulted in the payment of a penny of interest on the money since it was borrowed.

When, therefore, it is suggested that this Conference is convened because the Dominion is seeking to avoid handing back to the Provinces the fields of income and corporation taxes, we strongly dissent. Whatever the Dominion's views may be, we are opposed to going back to the status quo, because we know from bitter experience that we cannot get along upon the revenues that we can obtain from superimposing Manitoba corporation and income taxes upon federal taxes at the high level at which the Dominion Government for several years to come obviously must maintain its taxes.

The problem which faces this Conference in this regard is not whether any government wishes to avoid carrying out its undertakings under the Wartime Tax Suspension Agreements. The real problem is to decide whether in the interests of Canada and its citizens, the fields of income, corporation and inheritance taxes should be returned to the Provinces. For our part, their return to us is no solution.

I do not think there is any doubt but that the dominion government is prepared to carry out the terms of that agreement, but the question is—is it wise in the interests of the Canadian people that it should do so? Certainly, from the standpoint of Manitoba, its people and its government, we are all unanimously of the view that it is not wise, and we do not think it is wise so far as Canada is concerned.

WELFARE OF CANADIANS PRIMARY OBJECTIVE

We know how difficult it is for members of Government not to be pre-occupied with the fate of their own treasuries. There is a great temptation to which we ourselves find it hard not to succumb, to treat these negotiations as a bargaining between the Dominion and Provincial Treasuries, and to place the main emphasis upon whether the provinces would rent their income and corporation taxes and succession duties to the Dominion for a high rent or a low

one. An undue emphasis upon the rent to be paid distorts the truth that the maintenance of the income, the employments and the prosperity of the Canadian people is the primary consideration, and that the ease of the working of either the Dominion or Provincial Treasuries is a secondary matter.

If we maintain the present level of national income both the Dominion and the Provincial Treasuries will be in relatively favourable positions. If we return to the conditions of the 1930's both the Dominion and Provincial Treasuries certainly will be in extreme difficulties. But the disaster to the people of Canada will be the real penalty. This Conference in the interests of the treasuries of the governments here represented, must make the economic welfare of the Canadian people its prime objective.

PREWAR TAX STRUCTURE INEFFICIENT

To do this the Dominion Government must simultaneously do many difficult things. For example, it must meet the costs of the war and its aftermath. It must achieve advantageous international trade and international monetary arrangements. At the same time it must control effectively the internal volume of purchasing power in order to stabilize fluctuations in business activity for the purpose of maintaining a high level of employment. For these purposes it is imperative that Canada have an efficient tax system. As pointed out by the Sirois Report, Vol. 1, page 214, Canada's prewar tax structure was exceedingly inefficient. Concerning it the report states:—

. . . This brings up the whole problem of the "efficiency" of the present tax system. "Efficiency" in its most narrow sense might be interpreted as economy in collecting the existing taxes. In a broader, and far more important, sense it is skill in collecting a given amount of revenue with the least possible burden on the national income. In both senses the Canadian taxation system fails. Duplicate taxation machinery, inadequate and divided jurisdiction (involving cumbersome and expensive devices to do indirectly what the constitution prevents from being done directly) and lack of uniformity, all contribute to unnecessary expense and reduced returns. Of immensely greater concern, the lack of co-ordination in tax policies, and the almost uniquely high proportion of the Canadian taxation burden on costs rather than on profits, reduce the Canadian national income seriously. The national income is depressed in both a positive way, through restriction of marginal investment, production, and employment, and in a negative way through obstruction of the use of fiscal policy as a stimulant. These are criticisms partly of general taxation policy, and partly of the current working division of taxation powers between the different levels of government.

PREWAR TAX STRUCTURE UNJUST

The prewar taxation system was not only inefficient. It was unjust—unjust as between Canadians in different provinces, and unjust as between Canadians in the same province. Nowhere is there to be found a more powerful indictment of the Canadian prewar taxation system than that made by the Honourable John Bracken, the then Premier of Manitoba at the Dominion-Provincial Conference in 1941. His argument has never yet been answered. After pointing out that in 1930 only seven per cent of Canada's total tax burden under this taxation system came from progressive taxes upon incomes and inheritances, Mr. Bracken comments upon the system in these terms:—

We suggest that as long as the provinces retain the field of direct taxation, our national tax structure will continue to present this irrational aspect.

As long as the Dominion has to raise the bulk of its revenues by indirect taxes upon consumption which bear most heavily upon the low income groups, its taxes will continue to inflict the grave injustice which has been inflicted during the depression upon the poor, upon the consumer, and upon the farmer and other producers who are not protected by the tariff. The poorer a man, the larger his family, the less protected this market, the more heavily this tax structure bears upon him, regardless of the province in which he lives. It does not help such a man that he lives in a wealthy province in which the income tax rates are low. Indeed, it is because the provinces have the right to impose income and inheritance taxes and because the Dominion respects that right by imposing as little income tax as possible and no inheritance tax, that such a poor man, or farmer, living in a wealthy province has to pay, indirectly though it be, so much sales taxes, customs taxes and other indirect taxes to the Dominion Government. To such a man a low rate of income tax is of little significance, because the tax seldom reaches him; but the high indirect taxes imposed by the present taxation scheme do reach him. And yet there can be no relief under the present system for such a person by provincial measure, because the provinces do not control the taxes which are unduly burdening him.

Let us then, as provinces, clearly understand that until the Dominion is given the sole power to impose these direct and progressive taxes, under some such arrangement as that outlined in Plan 1 of the Sirois report, the Dominion cannot lighten the burden on people of low income without invading the provincial fields for alternative revenues to the point of serious embarrassment to provincial finances.

PRIORITY IN DIRECT TAXATION

This inefficient, unjust and calamitous pre-war tax system was the result of a misconception of history, of law and of economics, which is still with us.

Ontario and Quebec base one of the most essential parts of their case upon their categorical statement that the provincial governments have priority in the field of direct taxation. This statement is contradicted by history. It is incorrect in law. It is unsound in economics. When it was applied in practice before and during the war the economic effects were disastrous. We are, however, very much concerned to clear up this fallacy on our own account for it has caused us much mischief in the past and will do so again if Canadian thinking is not clarified upon this subject.

Suppose for example that Manitoba or any other province similarly situated, taking this categorical statement at its face value, thinks that if we fail to reach an agreement the province still has an easy way out of its difficulties, that way being simply to make use of its priority in the direct tax fields. If this priority really exists all that the provinces would need to do would be to politely insist that the Dominion repeal its direct tax legislation so that the provinces could step in with direct tax increases equal to the rates repealed by the Dominion, and the job would be done—within the limitation of whether the taxpayers' resources can bear the burden. We shall certainly delude ourselves if we think that this is what will happen if we fail to reach an agreement. The test of whether the provinces have priority is whether we can successfully attack the federal direct tax laws in the court, upon the ground that they are beyond the powers of the Dominion to enact. Those who say that the provinces have priority, know that this is impossible.

Not only is there neither historical nor legal support for this proposition, but when the Dominion as a matter of custom or courtesy refrained from imposing heavy direct taxes and depended on sales taxes and the like the result was calamitous to all concerned. We produced a tax structure which was the

reverse of what it should be. Our taxes fell to a disproportionate extent on consumption and sales and thereby tended to reduce living standards, production and employment.

Premier Drew and Premier Duplessis say that the provinces have a priority in the direct tax fields and that the Dominion should respect it. Well we respected it then, and this is the tax structure which resulted. Of the national tax bill, in 1930—

- 35 per cent came from such indirect taxes as customs duties, excise taxes, amusement taxes, etc.,
- 25 per cent came from sales taxes, corporation taxes,
- 33 per cent came from real estate.

What percentage came from progressive taxes upon incomes and inheritances? Only 7 per cent. The wealthy provinces because they were wealthy could keep their income tax rates low. As a result their wealthy residents and the wealthy and middle class groups of the rest of the country paid in taxes levied according to ability to pay only 7 per cent of the tax bill of the nation. The other 93 per cent was obtained from other taxes. This was the type of tax structure which would create unemployment rather than relieve it. But during the depression following 1930, when employment was certainly needed very badly, this tax structure was not corrected. It was made worse. How? By following the course that Premier Drew and Premier Duplessis are urging upon us now, that is, by having the Dominion recognize the priority of the provinces in the fields of direct taxation. The Dominion continued to leave the fields of direct taxation to the provinces. But they had to have revenues. That is a fact which should not be overlooked. Therefore, not being able to get it from direct taxes, they got it from the only other alternative, indirect taxes, and in consequence almost three-quarters of the increase in federal taxes between 1930 and 1937 was produced by indirect sales taxes. As a consequence recovery from the depression was retarded by business—destroying consumption taxes, by employment and investment destroying real estates taxes, and by economically harmful taxes upon corporations and businesses generally. And these results were produced by following the very course of action which Premier Drew and Premier Duplessis were recommending to this conference only yesterday. Does any one in this conference, after due reflection, think that if the Dominion were to get out of the field of direct taxation and recover its present huge revenue requirements from indirect taxation, that we would have anything but unemployment and depression in this country?

IMPOTENCE AND DEADLOCK FATAL

In today's world we may be sure that we shall encounter severe economic difficulties, when Canadian citizens will seek governmental action to relieve the human distress caused by economic deadlock, or to break up that deadlock itself. If we do not conclude this agreement, these citizens will have to be told by a majority of the provinces that it is impossible for these provinces to act, because they have the power, but not the money. When these citizens, having got no recourse from the provinces, go to the Dominion government for action, they will have to be told that it cannot act, because it has the money but not the power. They will have to be told, as they have been told many times before, that in our federal system there is no governmental authority to which they can turn for relief and for action in some vital matters which affect the public welfare. If we do nothing here this will be the truth; but to citizens it will appear as a shameless dodging of responsibility by both provincial and dominion governments. It will therefore appear not merely as a defect in our federal system of government, but as a major short-coming of free democratic government itself. Our responsibility in this Conference may be measured by

the fact that the enemies of democracy themselves could not devise an argument against it, more persuasive than the condition of governmental paralysis and frustration which we shall perpetuate by failing to reach an agreement.

Those of us who hold ourselves out as the exponents of the society which is good because it is free should remember that the first functions of even a democratic government are to survive and govern. We should recall the penetrating observation of one of the greatest of English philosophers written about 400 years ago and since vindicated by time that "What gave rise to most revolutions was impotence and deadlock in government." It is the impotence and deadlock which is so often the by-product of oppression and not oppression itself which topples over great states and political systems.

The Hitler state was in no danger of being toppled over when it was in its dynamic status. The Bourbons in France were in no danger of being toppled over, although the oppression was much greater under Louis IV than under Louis XVI. In each case it was the impotence and deadlock occasioned by oppression which was the immediate cause of the disturbance. I suggest that impotence and deadlock may arise not only out of oppression but sometimes with as great ease out of freedom. Impotence and deadlock wrecked the democracies which were set up in Europe after World War No. 1. Impotence and deadlock is a condition into which it is peculiarly easy for a federal state, with its divided jurisdictions, to drift. If we love our federal system we shall do our utmost—make genuine sacrifices if necessary—to prevent that drift.

Mr. Chairman, the Manitoba government is willing, upon the basis of the modified proposals now before the conference, to conclude an agreement without any ifs ands or buts. We want as small a share as possible in the responsibility for the consequences if this conference fails to reach an agreement.

PROVINCE OF BRITISH COLUMBIA

Mr. MACKENZIE KING: The Premier of British Columbia, Mr. Hart.

Hon. JOHN HART (Premier):

Mr. Prime Minister and gentlemen, since we met first on August 6, 1945, many discussions have taken place, problems have been studied and modified proposals have been submitted to the provinces.

While British Columbia's position and view already have been made known to you from time to time, it is now considered wise to summarize them so as to present a clear and composite picture.

It was realized fully last August that there was an urgency for the governments of Canada to take counsel so that the strength of the Dominion could be mustered to deal adequately not only with post-war reconstruction problems but also with those problems which, on repeated occasions, have been alleged to arise from certain inherent weaknesses in our federal structure or from the existing distribution of fiscal authority.

The magnitude of the problems confronting the Dominion has impressed itself deeply in the minds of our people. They recollect the frustrating days of the last depression. They still suffer from the tragic impact of the war. However, the success that has attended the management of Canada's war economy has given them a hope that, in a national way, much can be done in times of peace to control the effect of disturbed cycles; to banish the fear of unemployment and social insecurity; to achieve an ever-rising standard of living; in fact, to win the peace.

That the fulfilment of these objectives requires co-operative effort is manifest to all. Also obvious is the fact that in a relative, yet equally positive manner, the functions of all provincial governments have, as has been the case with the Dominion, expanded in scope and broadened in character, and that their contributive share to the over-all objective is indeed great.

Fully cognizant of the complexities involved and the vastness of public needs, British Columbia expressed itself last August as being ready to explore all avenues of approach and to assist in the common solution by submitting constructive suggestions.

There was, at that time, a full appreciation of the objectives of the Dominion, the increased number of questions of joint concern and of the new trends in public finance. Further, it was realized that if these matters were to be handled effectively in a federal system they would require a co-ordinated fiscal effort by the various governments concerned.

It was our opinion that the basic question would resolve itself into how effective recognition could be given to the interdependence of all Canadian governments, while, at the same time, preserving the constitutional and fiscal privileges of the several parts.

We expressed our belief that it was an indispensable feature of responsible government that the provinces should raise the bulk of their revenue by conventional tax methods. Assurance was given, however, that, if urgent fiscal need warranted it, we would be prepared to consider some form of co-operative method in certain revenue fields which were originally exploited solely by the provinces and, from 1919 onwards, independently by the Dominion and the provinces.

British Columbia's willingness to co-operate in solving problems that affected Canada's general welfare and safety has been demonstrated again and again. That it had a realistic appraisal of future trends is evidenced by the statement filed during the August meeting.

The original proposals which the Dominion presented to this Conference were such as to give British Columbia cause for uneasiness and apprehension. When the current tax agreement was entered into, this province enjoyed a yield of more than \$12,000,000 from its income and corporation tax levies. These tax fields were surrendered, as a war measure, in exchange for a fixed grant of an equal sum. Also, as a war measure, the province relinquished an annual subsidy of \$750,000.

The said proposals contained an offer to the province of \$12 per capita grant related to gross national production and population, or an irreducible minimum of \$9,814,300, on the condition that the province vacate the income (except in mining and logging profits), corporation and succession duty fields of taxation; and that it forego the statutory subsidies provided under the B.N.A. Act.

In so far as the volume of provincial income was concerned this meant that, based on the year ended on March 31, 1941, the province was required to surrender subsidies then amounting to \$1,624,560; the value of the fixed tax agreements' grants of \$12,048,367; and succession duties of \$888,860; or a total of \$14,561,788, which was equal to \$17.55 per capita and for which only \$12 per capita was offered in exchange. This would have meant a cash loss of \$4,747,000 and in addition that indeterminate amount represented by the natural expansion in yield from the taxes to be surrendered, and estimated to amount to many millions of dollars.

A loss of such proportions could not be entertained by British Columbia because we are far from balancing our budget under present conditions, as has been shown by the figures submitted to the recent legislature when current expenditures exceeded revenue by nearly \$6,000,000.

After close expert study of the economic implications of the August financial proposals, and of the related suggestions concerning social security and public investment, the Government concluded that these financial proposals were inadequate. The position of this Government was made clear in a statement presented to the Co-ordinating Committee on November 26, 1945. It was then stated that we were in full agreement with the objectives underlying

the Dominion's proposals—namely, social security and high level employment and at that time it was forcibly shown that the adoption of the August financial proposals would have an adverse effect upon the budgetary position of the Province. The subsequent studies of the Dominion-Provincial Economic Committee fully confirmed this contention.

Because we were satisfied that alternative financial arrangements could be devised which would not be inconsistent with the goal of full employment, the Government laid before the Co-ordinating Committee five conditions which we considered might fairly be applied as a test to any suggested financial arrangements. These were as follows:—

- (1) The arrangement should be capable of implementation without amendment to the B.N.A. Act.
- (2) In any transfer of Provincial tax fields to the Dominion the compensation to be paid to a Province in any year should never be less than the yield which the affected provincial taxes would have produced, if they had been levied by that Province, at the tax rates in force when the arrangement was signed, or when the Province last collected the tax.
- (3) That any financial arrangement should provide for a thorough review of the agreement, and its possible amendment or cancellation at the end of three years.
- (4) That where financial transfers from the Dominion to the Provinces are provided, the payments should be determined by an objective formula which may be applied to any or all Provinces.
- (5) That where financial transfers from the Dominion to the Province are concerned, wherever necessary, suitable arrangements should be made to compensate for variations in the price-level and changes in the population.

In accordance with these suggested criteria, we have contended that the existing statutory subsidies might very well be left untouched in any general readjustment. We have stated our willingness to recommend that for a three-year period the Province refrain from imposing income and corporation taxes, provided we are compensated by a sum at least equal to what we would collect if we were to impose these taxes at the rates in force previous to the wartime agreement. If there is general unanimity, we have stated our willingness to consider foregoing succession duties on the same basis for a three-year period.

It is quite obvious that at this time no one can foretell accurately what revenues might be secured from the imposition of these provincial taxes during the next three years. It is also clear that difficult problems would arise later if estimates of the provincial revenue were prepared from the statistical records of the Dominion Government. Because of these real difficulties, the Government has stated its willingness to consider reasonable interim compensation payments from the Dominion which could be adjusted later when more precise calculations could be made.

In the course of the discussions which have occurred since last August, reference has been made to the duplication of taxes which now exist with respect to gasoline, pari-mutuel amusement and certain other revenue fields. While it is appreciated that this is a problem which has been magnified by war conditions, we believe that a solution for it will require a co-operative effort on the part of both Dominion and Provincial Governments. The present understanding extended by the Dominion not to increase the Federal taxes in these fields during the life of a three-year agreement—except in the event of a national emergency is, in our opinion, not sufficient. We recommend to the Dominion that further consideration be given to the proposal that these sources of revenue be left exclusively to the Provinces, especially in view of the fact that the amount involved is small when compared with the total Dominion revenue.

With reference to the effect of the proposals on our budgetary position, a substantial degree of misunderstanding has existed concerning our fiscal requirement. This was due mainly to the fact that, during the past few years, substantial revenue surpluses had accrued to the treasury. The facts of the case are, that these surpluses, in effect represented public services and projects, chargeable to income account which, because of war conditions, had to be postponed until labour and material were readily available. Permit me, at this juncture, to outline briefly the budgetary provisions for the current fiscal year in order to clarify fully my preceding remarks.

Revenue collections for the year ending March 31 next are estimated to yield a total of \$42,152,000. The total of our current expenditures chargeable to income amounts to \$47,639. It was therefore necessary to offset the deficit in current income by an appropriation of \$5,550,000 from former revenue surpluses. No capital expenditures are included in the aforesaid estimates.

A programme of capital expenditures for roads, bridges and building has been arranged to commence this year. This programme will cost more than \$30,000,000, which sum will have to be secured through further loans by the Province.

As a result of these a further expansion in current costs is anticipated during subsequent years. These costs include the maintenance of the new capital works and the care of the patients in our new institutions.

The problem of providing adequately for the conservation and protection of our forest resources has been met substantially, but additional provisions still are necessary.

Our municipalities have pleaded, during many years past, for financial aid so that real property might enjoy some relief from an excessive tax burden. Considerable assistance already has been extended by the Government's assumption of a greater portion of the cost of education, but additional fiscal aid is anticipated as the result of the findings of a Royal Commission presently engaged in surveying Provincial-Municipal relations. As an interjection it is desired to point out that the large increase in our current costs is the result of better forest protection and conservation measures and the assumption of a much greater portion of the cost of education.

These additional expenditures are altogether apart from the obligations which would be assumed under the proposed agreement, or which might have to be met in the event of a depression. Of particular significance in the latter category are the health insurance provisions and relief to unemployables and indigents.

The people of British Columbia already have expressed their wishes regarding health insurance and in the near future appropriate measures will have to be taken to provide them with such benefits. What their extent might be at first cannot now be determined. However, there is no doubt that a considerable part of their cost will have to be borne by the Government. Under the Dominion proposals, the provincial share would amount to more than \$9,000,000 and no scheme of registrations could possibly raise that sum.

Relief to indigents or unemployables is already costing the Province large sums notwithstanding the fact that unemployment is not now a problem of serious concern to the treasury.

When considering provincial expenditures it should be borne in mind constantly that very few of them can be pared down during adverse economic cycles without serious and harmful results. If the Dominion proposals are adopted, the very nature of them will make it imperative that provincial services be maintained at their full level lest their reduction aggravate further the downward trends incidental to a depression.

It is obvious, therefore, that ample revenues must be constantly at the disposal of provincial governments and that the source of these revenues be elastic enough to meet all contingencies.

It is realized, of course, that there are areas in the Dominion which do not enjoy the balanced economy others do, or which do not possess a wealth of natural resources sufficient to provide fully for services in a manner comparable to their more fortunate neighbours. It is our opinion that these areas merit special consideration. Whenever their services fall below a level compatible with proper national standards, adequate fiscal relief should be extended by the Dominion. The measure of that relief should be determined by that authority.

I wish to show that if the proposals submitted by the government were accepted by the various provinces and in force during the current year the cash position of the provinces would be as outlined by the following figures. These figures are taken from the statement supplied to us.

(Millions of Dollars)

Payments under 1941 Tax Agreements plus statutory subsidies and 1939-43 average succession duty collection.	Amounts which will be paid in 1946 on basis of average GNP and population of 3 preceding years.	Improvement in Cash Position
P.E.I. \$1.1	2.0 .....	.9
N.S. 4.2	9.9	5.7
N.B. 4.8	7.5	2.7
Que. 32.1	56.8	24.7
Ont. 44.0	64.2	20.2
Man. 8.0	11.8	3.8
Sask. 8.3	13.7	5.4
Alta. 8.2	13.2	5.0
B.C. 14.2	18.1	3.9
<hr/> 124.9	<hr/> 197.2	<hr/> 72.3

Mr. Chairman, during the last couple of days we have heard references to the favoured position of British Columbia under the proposals of the Dominion government. I call your attention to the fact that under the proposals, if accepted and in force during this year, Ontario would improve its position by \$20,200,000; Quebec by \$24,700,000 and British Columbia by \$3,900,000.

It is our belief that once the main outline of a generally acceptable Dominion-Provincial financial arrangement has been developed, it will be possible to make rapid progress in this Conference in the discussion of the various social security and public investment measures which have been brought to our attention and in which we are vitally interested. In order that the position of this Province, however, be clearly understood on these issues, I shall repeat some of the opinions we have previously expressed.

In the case of old age pensions, it is our opinion that the scheme now in force has a number of weaknesses. The amount of the pension—which in British Columbia is supplemented by a monthly cost-of-living allowance of five dollars—is too low. The eligible age of seventy years is too high. It is not a contributory scheme. The pension must be administered on a Means Test basis.

To remove these weaknesses, we believe that a contributory scheme on a national basis should be brought into force.

The present Dominion proposals, in our view, fall short of a complete solution. To provide old age assistance for people from 65 to 70 years of age, under the conditions suggested by the Dominion, it would still be necessary for British Columbia to retain a residence clause, as well as the Means Test provision. Nor is the problem of the old age pensioner, who is asked to subsist on a thirty-dollar monthly pension, solved by extending such a pension freely to all persons 70 years of age and over.

With reference to health insurance, I may say we are anxious to see the early development of a well-rounded preventive and curative scheme which will provide the best possible care at the least cost to our citizens. The financial assistance offered by the Dominion Government to aid in the planning and development of an adequate provincial scheme should be very helpful in this connection.

In so far as the health grants are concerned, we are gratified to find that the Dominion Government is now willing to remove some of the uncertainty which has often surrounded conditional grants-in-aid in the past by its proposal to make them statutory. Whether it will be possible for the Province to accept these grants and to offer the public a free service in the required new cases (mental health, T.B.) will depend in part upon the financial agreements made at this Conference, upon the available supply of medical and hospital facilities, and upon the increased demand which may arise for these public health services.

We have noted with interest the Dominion's suggestions regarding unemployment assistance. It is greatly to be hoped that during the life of a three-year agreement, because of the Dominion's contemplated full employment programme, there will be little occasion to resort to this type of assistance. In so far as it may become necessary to use it, we believe that such questions as the definition of an able-bodied person, the treatment of self-employed persons, farm labour and other related matters ought to be decided in a mutually satisfactory manner.

Turning now to the field of public investment, I should like to say that the Government of British Columbia is quite ready to cooperate in the accumulation of a shelf of desirable public works which might be placed under construction at strategic periods in the business cycle. The proposals to provide planning and timing grants are in principle at least, a very welcome indication that the Dominion will attempt to use public investment as a counter-cycle device. It is not quite so clear to us, however, that the Dominion has fully perceived the financial position of the provinces which will commonly arise under threatening depression conditions. It is certain that in a period of declining public revenues, few local or provincial authorities will relish the prospect of financing new capital works in the ordinary way. Indeed, only one governmental authority has the monetary and fiscal means at its disposal to meet a deficit-financing problem of this nature, namely the Dominion. We have understood that one of the primary reasons for considering a tax agreement at this time was that it would assist the Federal Government to carry out the financial policy necessary for full employment. If this is so (as the White Paper and the Green Book of 1945 seem to imply), then the Dominion should clearly accept the major and not the minor proportion of the cost of public works which are launched deliberately on a counter-cycle programme.

May I now, once again, assure this conference of our earnest desire to cooperate fully in attaining a solution to our several problems and reach a satisfactory agreement. We are confident that the counter proposals we have submitted are not only fair but just. There are sacrifices involved thereby. These, however, may yet prove the means of determining, during the next three years the value and wisdom of the Dominion policy and enable the appraisal of trends and factors upon which judgment concerning future Dominion-Provincial relations can be formed.

The discussions, so far, have more than proved the fact that during the past there has been a lack of cooperative effort and joint counsel. They have likewise proved a lack of a mutual understanding of individual problems, and have brought to our attention other domestic needs which, as yet, have not been covered fully.

This, we believe, demonstrates clearly the need for constant joint counsel and collaboration during the proposed three-year trial period, through the medium of a coordinating council. By this means, at the appropriate time, we may deal more objectively and expeditiously with such proposals as may then be recommended. It is our considered opinion, however, that there are certain basic principles of government which must be defined clearly before those proposals are discussed; among them a definite allocation of revenue sources.

In conclusion, I will now repeat my final remarks on this subject to the British Columbia Legislative Assembly on February 26, 1946:—

Briefly our position is that we will recommend for a three-year trial period that the Province refrain from imposing income and corporation taxes, provided we are compensated by a sum equal to what we would collect if again we imposed similar taxes to what were in force previous to the war tax agreement. The alternative to this is that we proceed to collect income and corporation taxes at rates current before the war. Should we be obliged to do this, the Dominion Government by the terms of the present tax agreement must reduce their taxes accordingly, but not exceeding 10 per cent on corporation incomes. Consequently, our re-entry into these taxing fields would not mean increasing taxes for the taxpayers. Should this step be necessary, we would ask the Dominion Government to collect the taxes on our account so that there would only be one collecting agency.

It is most significant that my government's recommendations, concerning the Dominion proposals, received the unanimous approval of the House and were received generally with unqualified support from the press and the people of our Province.

British Columbia, therefore, is prepared to enter an agreement with the Dominion Government to forego the collection of taxes in the field referred to on the conditions outlined.

Mr. MACKENZIE KING: Mr. Jones, do you prefer to wait until this afternoon?

Mr. JONES: I prefer to wait.

Mr. MACKENZIE KING: We will adjourn till half-past three.

At 12.50 p.m. the Conference took recess.

AFTERNOON SESSION

The Conference resumed at 3:35 p.m.

PROVINCE OF PRINCE EDWARD ISLAND

Mr. MACKENZIE KING: The Premier of Prince Edward Island, Mr. Jones.

HON. J. WALTER JONES (Premier): Mr. Chairman and gentlemen, the Province of Prince Edward Island continues to believe that under the existing relations between the Dominion and the provinces, this province has not been and is not receiving a fair or adequate share of assistance from the Dominion Government. We also believe that the so-called "National" Tariff Policy has worked to the great detriment and disadvantage of Prince Edward Island as compared with the larger central provinces. On the other hand, by force of the most drastic economies in provincial administration, by doing without a great many services enjoyed by other provinces of Canada, by maintaining other services on a modest and even niggardly scale and by exploiting every feasible source of taxation and revenues, the province is still faced with an ever-increasing public debt.

The Province of Prince Edward Island will endeavour to show the urgent necessity of and the right to substantially increased Dominion assistance for the public services which the province is obliged to carry on and expand.

HISTORICAL

The Maritime Provinces were induced to enter Confederation on the strength of two main representations:—

- (1) That an intercolonial railway be built;
- (2) That in general and specifically as a result of the building of that railway, the Maritime Provinces were to share in the internal commerce which the creation of the Dominion was intended to promote.

The first promise was fulfilled, but the second, which was to be corollary to it, has almost completely failed. Instead of finding markets in Upper Canada and the West, the Maritime Provinces, especially Prince Edward Island, have lost in large measure the commerce they had at the time of Confederation. Shipping has declined, manufacturers have withered away in face of large-scale production of the upper provinces, the financial institutions of the Maritimes have themselves gone to larger centres, and the most enterprising part of the population has been steadily migrating. Prince Edward Island has lost her natural markets because of the tariffs and freight rates imposed upon her from the national point of view, but have not shared in the markets created by such tariffs, and thus, for this province, it has been in large measure all loss and no profit.

We, of this province, are strongly of the opinion that the prosperity and wealth of Canada should be distributed more evenly than it has been in the past.

Prince Edward Island entered Confederation upon the understanding that it would receive from the Federal Government such subsidies as would enable it to carry on the public services allotted to the provincial government without resorting to direct taxation. Very shortly afterwards the province was forced to resort to direct taxation and notwithstanding this it is unable to continue to provide for the existing services without an increase of revenue. As a result many of the necessary public services are altogether neglected and many others are not adequately provided for.

Furthermore, this province has no sources of revenue from public lands, natural resources and large corporations, and can only increase its revenue from two sources:—

- (1) A further increase of direct taxation upon the farms of this province in face of a shrinking population.
- (2) Increase of subsidy from the Federal Government.

It is useless to talk of further taxation upon a diminishing population. What is necessary for the financial redemption of the province is to improve existing conditions, not to make them more burdensome.

In the Duncan Report (page 9) it is stated:—

The outstanding fact, it seems to us, is that the Maritime Provinces have not prospered and developed, either in population or in commercial, industrial and rural enterprise, as fully as other portions of Canada.

That statement was made twenty years ago, and still applies as far as Prince Edward Island is concerned.

It might be thought that Prince Edward Island is an infinitesimal province and always was of little importance. It was not the smallest in population when it entered Confederation. It has not a larger population now than it had in 1881. It merely ceased to progress after entering Confederation.

In early days Prince Edward Island was chosen the headquarters of the fisheries, but this headquarters was destroyed and ten shiploads of inhabitants carried off to Europe.

After the British conquest in 1763, a surveyor-general, Major Samuel Holland, was commissioned to survey all lands north of the Potomac river and inland as far as civilization extended. The first area surveyed was Prince Edward Island in 1764 as, I suppose, it was considered the most precious prize. It was parcelled out in lots to Britishers and thus absentee landlordism was hoisted on Prince Edward Island, which developed to a great quarrel 100 years later and was one of the prime reasons for drawing us into Confederation. At that time we borrowed \$800,000 from the Dominion of Canada to buy off the landlords and we are still paying 5 per cent interest on that amount.

FISCAL NEED

With regard to Dominion-Provincial financial relations "fiscal need" of the provinces should be, and in fact, has been the dominating factor in determining the amount of Dominion subsidies since Confederation.

Sir Wilfrid Laurier, then Prime Minister, stated in Parliament in 1907 as follows:—

Why was the basis in 1864 for the allotment of 80 cents? I have searched for the reason and the only one I can find is this, that a calculation was made by the Minister of Finance of the various provinces, according to statement by Col. Grey, by Mr. Brown, by Dr. Tupper, by Sir Leonard Tilley, by Mr. Shea and others, and they came to the conclusion that this would be a fair basis upon which to meet the wants of the provinces. That was their judgment and in 1906 we took as a basis of judgment of the Ministers of the several provinces assembled with us, who told us that, according to their experience, this was the amount they needed in order to carry on their public affairs. They had no other basis than that.

Forty years ago "fiscal need" was the determining factor in granting subsidies to those provinces unable to give adequate services to its people on the basis of equality throughout the whole of Canada. So why not now?

The principle of fiscal need must be applied to all provinces but in the application of it, *the fiscal need of each province* should be considered separately. The fiscal need of one province may be quite different from the fiscal need of another province.

The following statement is taken from the Jones Report on Nova Scotia's Economic Welfare within Confederation, December, 1934:—

The fundamental weakness of the original financial arrangements between the Dominion and the Provinces lay in their assumption that the expenditures of the province would be determined in the main by growth of population rather than by the acceptance of new governmental responsibilities...

Moreover it has become increasingly necessary to adopt the financial arrangement between the Dominion and the Provinces to certain important changes that have taken place, under the influence of tariff policy, in the relative taxable capacities of the Provinces.

Further the Jones Report states:—

Subsidies should be determined upon the basis of impartial study or in accordance with some arrangement which will permit of automatic adjustment at comparatively brief intervals... possibly the year following the publication of each decennial census.

(Fiscal need of the Provinces should be the criterion in determining subsidies).

We believe that the whole financial relationship between the Dominion and the Provinces should form the subject of close investigation in the light of the changes that have occurred in the economic situation in the course of a generation.

Even a generation ago Prince Edward Island was able to give to its people adequate service and a fair share of income sufficient at that time to cope with the plane of living existing in the period and to meet their obligations in the way of taxes to the government. But, as time progressed and modern improvements in social and educational services took over plus the era of the automobile demanding costly improved highways, the revenue of the government raised through taxation was soon seen to be so inadequate that the people of the province either had to be taxed beyond their earning power, or the federal government requested to supplement the province with substantial increases in subsidies. Otherwise, the province would be faced with large recurring deficits. The latter was the result as shown by the Public Accounts of the province regardless of its "frugality" and despite the efforts of the government of the day to achieve and carry out the various demands made upon it by the people in keeping up with the standard of service given by the governments of the other provinces.

To-day the granting of a subsidy or special allowance to this province will not compensate the Province of Prince Edward Island for the loss suffered by the province due to the non-fulfilment of the terms of Confederation. Due to its size and its declining population, Prince Edward Island has not progressed to the extent visualized and hoped for by the Fathers of Confederation. The reason is that trade and tariff policies, steamboats, transportation, freight rates and advancement of essential services demanding a severe strain on the pocket of the taxpayer have resulted in a retardment of progress rather than an advancement upon the economic life of the province.

The impact of the so-called national policy, the cessation of wooden ship-building, the decline in sea-going services, the removal of artisans from the provinces as manufactured goods from Canadian factories come in, the gradual losses of nearby markets for farm products, which is still proceeding, led to considerable emigration and induced a helpless feeling in investors who have got in the habit of investing anywhere else than home. The farms have held their population, the fisheries have improved, but village life declined to a low ebb.

As a particular instance of neglect on the part of the federal government may I cite that no provision is made to ferry trucks. Interprovincial ferries are a federal responsibility. Prince Edward Island's markets for farm produce are largely within 15 miles and normally freight to such markets would travel by truck. Yet on the government ferry at Borden five tons of freight and a return cargo of the same size costs \$50.65, which of course is prohibitive.

DUNCAN COMMISSION

In 1926, a Commission was appointed to report to the Government of Canada upon the grievances of the Maritime Provinces.

As a result of the findings of this Commission (Duncan) some of the grievances were adjusted, and the long standing disability in which the Maritimes had been placed was alleviated to some extent by the interim subsidy award paid by the Federal Government and its confirmation and increase by the White Commission.

This Province did not accept the Duncan and White Commission findings as the final settlement of the fiscal relations that then existed nor did the province accept it as full settlement of all future demands for fulfilment of our various claims.

AUDIT BOARD

In October 1930, the Audit Board of Canada at the direction of the Treasury Board made an Interim Report to the Prime Minister as to the equitable re-assessment of the claims of the Maritime Provinces by virtue of the Duncan Report. The following is an extract:—

The Provinces of Nova Scotia and Prince Edward Island showed deficits in their Public Accounts for the last fiscal year, and the Province of New Brunswick showed a slight surplus. *We are sure that if they made expenditures upon other public welfare services proportionate to that of other provinces of Canada, these adverse financial results would be far greater.*

These large annual deficits are due to the inability of the economic resources of the province to meet the requirements of public expenditures needed to support that type of economic life that is regarded as the common heritage of Canadian communities.

WHITE COMMISSION

On February 9, 1935, the Report of the Royal Commission on Financial Arrangements between the Dominion and the Maritime Provinces was transmitted to The Right Honourable R. B. Bennett, Prime Minister of Canada.

This Commission consisted of three members, The Right Honourable Sir Thomas White, Chairman, Honourable J. A. Mathieson and Mr. E. W. Nesbitt.

The Honourable Chief Justice Mathieson did not concur in the recommendations of the Commission Report, and filed a Memorandum of Dissent which read as follows:—

Memorandum of Dissent

Honourable John A. Mathieson, C.J.

I find myself reluctantly compelled to dissent from some of the opinions expressed, and the conclusions arrived at, by the majority of this Commission.

The Report minimizes the importance of "Fiscal Need" as a guiding principle in determining the amount of subsidy which provinces are entitled to receive from the federal government in support of provincial governments and legislatures.

From early days one first requisite to granting additional aid by the Dominion to a province was proof of "Fiscal Need" arising from causes for which the province was not responsible.

Such proof would, of course, not be required where the claim rested on damages as for breach of the Confederation Contract, or for compensation for the alienation of Dominion lands to other provinces.

There is no doubt that when the financial terms of union were first being considered, one controlling principle accepted was that in return for the surrender by the contracting provinces of their principal source of revenue—the customs and excise—the Dominion was to grant such subsidies as would enable these provinces to carry on their local administration without resort to direct taxation. The records of the negotiations preceding Confederation, and of the

statements officially made by prime minister, ministers of finance and other leading statesmen then and since that time, are replete with declarations to that effect. I shall quote but three.

On March 25th, 1907 (Hansard 1906-7, vol. III, p. 5292), Sir Wilfrid Laurier said:—

Lower Canada would not have entered Confederation if, as a consequence, she had been obliged to resort to direct taxation to levy the revenues necessary to carry on her domestic affairs. What was true of Lower Canada was equally true of the maritime provinces. Nova Scotia, New Brunswick, Prince Edward Island, would not have agreed to enter Confederation if, as a consequence, direct taxation had to be resorted to . . . Therefore it is not to be wondered at that when the provinces represented at that conference agreed to surrender to the central government the exclusive power of taxation by way of customs and excise, they should at the same time have stipulated as a condition precedent that a certain portion of the revenue thus collected should be returned to them, and a portion sufficient to permit them, without having recourse to direct taxation, to carry on their provincial affairs.

And on March 25th, 1907 (p. 5322), Honourable W. S. Fielding said:—

The provinces existed before the Dominion, the provinces had to be brought together in order that the Dominion might be formed, and the provinces had the right to determine the terms and conditions upon which the Dominion should be created.

And again (p. 5323):—

When the provinces were asked to become parts of a great Dominion they had the right to stipulate the terms and conditions upon which they would enter, and they determined that they would not accept the principle of direct taxation. They determined that they must receive out of the federal treasury a proper proportion of those customs and excise duties which they were called upon to surrender. The principle of avoiding direct taxation, of raising money not only for the purposes of the Dominion but for the purpose of the provinces as well by indirect taxation, was recognized by the provinces from the beginning, had to be recognized from the beginning, one is justified in saying; otherwise, the provinces would not have come together. . . . It is not reasonable to suppose—as has been suggested in the discussion to-day—that the provinces entered Confederation with the expectation that they should be called upon to resort to direct taxation, in a general form, for the purpose of maintaining their provincial governments and provincial legislatures.

And in the same debate (p. 5310), Sir George Foster said:—

Unless compromise had been resorted to and the smaller provinces had been provided for so as to relieve them from the necessity of facing immediate and even approximate, taxation, we would to-day be a string of disunited provinces without confederation.

It is a fact difficult to explain that by degrees this fundamental principle has been departed from in practice. These provinces have ceased to rely upon Dominion subsidies alone for many of their necessary public services and through the years have steadily increased in area and amount in the exercise of their provincial taxing power until it practically covers, in the Maritime Provinces at least, the whole provincial field, while the Dominion Government has also invaded the provincial field, notably in the case of income tax, and still the provincial deficits grow.

There has been a long drift from the firm anchorage which the Fathers of Confederation thought they had secured.

Some other notable developments have taken place in Confederation. The fields of taxation surrendered by the provinces to the Dominion have proved prolific sources of revenue, far in excess of what the "Fathers of Confederation" could have anticipated or even dreamed; while, on the other hand, the rigid limitations imposed upon the amount of subsidy to be granted to each province, in return for the surrender of its fruitful and expanding source of revenue, has left the Maritime Provinces, in particular, in a position of financial embarrassment that urgently requires a remedy.

The Report greatly minimizes, if it does not quite repudiate, the relevance of the question of "Fiscal Need," when it says the provincial premiers "endeavoured to show that their respective Provinces have fulfilled the condition of this test, namely, that the functions which the Provinces were discharging were necessary, that such functions were being economically carried out and that each Province had exhausted available sources of revenue." The Report objects to the acceptance of such evidence as a justification for such financial assistance as might be required to meet these needs. The objection is upon this ground, namely, "The Government of the Dominion would have to sit in judgment upon the question as to whether the provincial administrations have, or have not, been economical; whether or not a Provincial Government had exhausted all available sources of revenue; and whether all the functions which it was exercising were necessary in the degree to which they were being exercised." The Report continues, "Under our political system, from which the spirit of strong partisan bias can never be wholly excluded, grave abuse through favouritism towards individual Provinces, and consequent discontent on the part of other Provinces whose governments were not so favourably regarded, would surely follow the acceptance of even this modified test of 'Financial Need' in the case of Provinces seeking further subsidies in aid from the Dominion Treasury." With all due respect, let me say that it was to obviate such objections and to answer these questions that the Duncan Commission and this Commission were appointed and empowered.

There can be no advantage in re-arguing or stating more fully now the questions which were so ably presented by the representatives of the Maritime Provinces before this Commission and so strenuously opposed by counsel, for the questions referred to this Commission remain undetermined by this Report, and that the increase of subsidy proposed will give but partial and temporary relief. The lapse of more than eight years since the Duncan Report went into effect granting provisional subsidies only, has witnessed such necessary increase in government expenditures in the case of all the Provinces as will quickly absorb the present proposed increases, and still leave them in a position to compel diminution of necessary expenditure on provincial services, or a further increase of provincial debt or of local taxation, or of all three combined.

These old British Colonies that formed the Atlantic bulwark of British North America, after bearing their full share of the cost of Canadian organization and development, should not be treated with less justice and consideration than is being accorded the Provinces whose lands they helped to purchase, to protect and equip for settlement.

The evidence produced before this Commission showed from early days a total absence of equality in the treatment of the different provinces in Canada, both in regard to money grants by way of subsidy and in the gifts of vast areas of Dominion lands to some Provinces without any uniform plan and without any compensation to Provinces that did not share in the partition of the common property.

It was made clearly to appear on this inquiry that one of the major problems facing Canada to-day is the devising of some general plan for the adjustment of Dominion and provincial financial relations.

The practice which has existed from early days of dealing with single Provinces or groups of Provinces without due regard to the interests of all, may bring about a condition of grave unrest not free from danger to Canadian unity.

I wish to join in my expression of appreciation of the courteous and competent assistance of Mr. Payne, Secretary of this Commission, and also of my old friend, Mr. MacCormac, of the Parliamentary Library, whose many kindnesses now and in former days I recall with gratitude.

OTTAWA, February 16, 1935.

BASIS OF PRINCE EDWARD ISLAND DEMANDS

Prince Edward Island's demands are based primarily upon equitable and national grounds, so that the health and welfare of all the people of our Dominion may ensue. Equity provides for a just regulation of the mutual rights and duties of men living in a civilized society.

EQUITY AND JUSTICE

At the 1912 session, Parliament, in response to representations from the province of Prince Edward Island, provided an increase of \$100,000 in the annual subsidy paid to that province, by Chapter 42 of the Acts of 1912. The Minister of Finance, Mr. White, stated this was an additional subsidy to the province of Prince Edward Island, not appropriated in any particular way but simply a lump sum as an additional grant, and given "after considering the claims so advanced on the part of Prince Edward Island, and having regard to its financial condition and its diminishing population and the entire situation."

Sir Wilfrid Laurier, then Leader of the Opposition, stated in relation to this measure:—

The one reason only which has impressed me—and it is not a constitutional reason, it is not legal reason, it is simply a reason of equity—is the fact that Prince Edward Island has not profited by Confederation. For some years past it has been largely losing its population by reason of its connection with Canada, and it is going backward instead of forward. Its trade has been diverted from its natural channel—perhaps I should not call it the natural channel but a channel of trade which has been created—and in the process of many years the trade of the Island has suffered. That is the only basis upon which a reason could be founded by my honourable friend for his action.

Honourable Mr. White, Minister of Finance, in replying said:—

There is one claim which I think Prince Edward Island has put forward very strongly and which I do not believe can be controverted. Prince Edward Island is one of the four provinces of the Confederation that have had no public domain. The others are Alberta, Saskatchewan and Manitoba. These provinces are contained within public domain. They have no minerals.—Sir Thomas White said that in 1912.—That province (Prince Edward Island) was granted at the time of the Union for certain public lands the annual sum of only 50 cents per head. Now my right honourable friend (Sir Wilfrid Laurier) in 1905, when he constituted the provinces of Saskatchewan and Alberta placed those provinces on a basis of \$1.50 per head in lieu of public lands, and we have recently placed Manitoba on the same basis upon the grounds of equity and justice.

Mr. White further stated:—

In looking over this case of Prince Edward Island I have become enthusiastic about it, and I say that Prince Edward Island, from the date of union has been hardly treated, and I believe that her dwindling population is, to a very large extent, due to the fact that she has been deprived of the subsidies to which she was justly and reasonably entitled from the Dominion since Confederation. I hope to show to the satisfaction of the House that this grant is not only justified, but abundantly justified. I hope that a new era will dawn for the province of Prince Edward Island when it gets this enlarged subsidy.

This Confederation of ours is a partnership, and it cannot be successful if one of the partners fails to share adequately in the common benefit of all.

The Province of Prince Edward Island is not complaining of the benefits enjoyed by the other provinces but wishes to emphasize that its demands as a partner of this Canada of ours must not be ignored and the conditions peculiar to this province must be given consideration by the rest of Canada.

COMPARISON WITH OTHER PROVINCES

Referring to the Rowell-Sirois Commission's Report, it is stated:—

Statistical comparison between a unit with a total population of about one-tenth that of Toronto metropolitan area and say, the Province of Ontario are of little value or significance. For many purposes Prince Edward Island must be considered quite separately. But if a comparison is to be made with other provinces, the most striking feature of Prince Edward Island's provincial and municipal revenue system is the relatively large amount derived from federal subsidies—more than three times the per capita average for all provinces.

Total provincial and municipal revenues from within the Provinces, on the other hand, are only one-third as much as the per capita average for all provinces, and not one of the chief taxes or groups of taxes is up to the average.

In this Report it is stated:—

There are, of course, special circumstances which account for this and such a comparison in itself cannot be taken as evidence that Prince Edward Island is undertaxed.

The Report further states:—

In spite of the fact that Prince Edward Island is the most perfect geographical entity of any Canadian province, it does not form a satisfactory unit from the point of view of public finance, and particularly for raising revenue. The manifest inability of a small agricultural economy, possessing no taxable surplus, to raise revenues and to finance services on the same scale as in the rest of Canada was recognized from the first in the special debt allowance, and subsidy in lieu of land, provided when Prince Edward Island entered Confederation. Much of Prince Edward Island's financial history since then has been one of subsidy claims and adjustments, and special increases in 1887, 1901, 1911 and 1935 maintained the subsidy as much the most important source of revenue.

As a result of the relatively large proportion of the revenue provided by the fixed subsidy and of the small proportion derived from such normally fluctuating sources of public domain, liquor control and progressive taxation, the Island Government's revenues are exceptionally stable but also inelastic.

PROVINCIAL GOVERNMENTS SYMPATHETIC TO THE SMALLER PROVINCES

A conference of representatives of the governments of the provinces, including the premiers thereof, was held at Ottawa on the 7th June, 1926, all the provinces excepting Alberta being represented. After considerable discussion and an expression of opinion given by the representatives of the provinces, the following resolution, designed to consider sympathetically the financial arrangements in respect to the smaller provinces, and particularly the three Maritime Provinces, was unanimously passed:

That this conference expresses its sympathy with those provinces which, by reason of conditions peculiar to them, have not progressed as anticipated, and urges upon the Federal Government that it should favourably consider affording relief to each of such provinces in a form that will ameliorate these conditions.

FRUGALITY IN EXPENDITURE

Prince Edward Island having almost reached the limit of revenue that is available from taxation, with existing resources in industry and population, and having in mind its increasing social obligations is confronted with the possibility of being unable to achieve and maintain the minimum standards of governmental services recognized in other provinces as essential.

No better analysis of Prince Edward Island's inability to cope with rising expenditures let alone embark on a gigantic scale of public services is better presented than the review made by and reported on by the Rowell-Sirois Commission. The report reads in part:—

In keeping with the rigid and limited character of governmental revenues, provincial and municipal governments have performed their functions with great frugality and economy. The small area and population of the province have made it possible to dispense with an extensive municipal organization, but on the other hand, there are certain basic essentials of provincial government which must be provided. Even when the overhead costs of these are kept at the possible minimum level they are uncontrollable and relatively high in relation to the small population . . .

It is clear that standards are inadequate and below the average in many cases . . .

Expenditures on education are some 40 per cent below the national average per capita and expenditures on public welfare (other than relief) 60 per cent less . . .

Expenditures on agriculture and development of other resources are low, in part owing to the lack of any public domain, but this may be one of the fields in which enforced economy has been costly in view of the necessity of utilizing and coordinating the Island's limited resources to the maximum possible advantage.

Summarizing the Island's position the Commission reports as follows:—

Expenditures have been economically administered and the Island's credit and prospects of financial stability are good. On the other hand, there is little prospect under the present system of the Island Government being able to bring the standards of governmental services to real equality with those in the rest of the country.

We feel that we should not be penalized for our frugality.

MODERN IDEAS CALL FOR GREATER EXPENDITURE

Consideration must also be given to the urgent demands which the advanced thought of modern times imposes upon the province in such matters as education, health and welfare services, administration of justice, rural electrification, mothers' allowances, the development of agriculture, and the care of highways. The cost of highway construction has been increasingly felt and has added very heavily to our provincial outlay. These expenditures must be made, even at the cost of a steadily expanding debt, in addition to providing for interest on capital expenditures, and sinking funds. Increased expenditures cannot be avoided unless we are content to allow the province to lapse into indifference to the modern spirit of enterprise and development.

The province has not been able to do anything like as much in educational work as modern conditions demand and as it must do if it is to meet competition of other provinces for our teachers. Teachers require larger salaries; competition requires that the acts and manufacturers be considered in the light of modern science; the conditions of agriculture require greater knowledge and skill.

Other necessary services, such as the care and treatment of tuberculosis, mental health, child welfare, etc., have not had the full and adequate service that is being demanded by the public due to the inability of the province financially to expand these services.

The financing of old age and blind pensions has required the province to delve into its limited revenues and, under the proposed scheme, the cost to the province will be greater.

The province has no mothers' allowances, cost-of-living bonus, or technical training for the general public as an integral part of the school system.

The amount available from subsidy for the purpose of provincial administration in the larger provinces is now relatively one of their smaller items of revenue, but in the smaller provinces, necessarily limited in population, the subsidy grant must form a relatively large proportion of the provincial revenue.

PRESENT AND PROPOSED SUBSIDY TOTALLY INADEQUATE

From the time of Confederation this Province has registered its dissatisfaction with the subsidy arrangements and demands have been made repeatedly upon the federal government for better terms, a more favourable consideration of subsidy allowance and other adjustments of provincial claims.

The subsidies paid in the past to Prince Edward Island and the amount now offered are totally inadequate to provide a sufficiency of revenue to enable the government to deal satisfactorily with the varied interests entrusted to their charge and to meet the steadily increasing obligations necessary to maintain efficiently the government services which modern requirements have enlarged to a degree not anticipated at Confederation or even fifteen years ago.

The subsidy granted years ago cannot be realized at this stage. The fiscal need to be considered at the present time must be the need of to-day and anticipated future obligations. It is an expanding, not a static concept; current need, not historic need, must be the determining factor.

It is contended that apart from the adjustment of any special claims between the Province and the Dominion, increased subsidies must be provided, based on the principle of fiscal need and not population.

The best index of the actual fiscal need of the Government of Prince Edward Island can be obtained by the compilation of a model budget of minimum reasonable expenditures which will enable the Province to carry out the Dominion Health and Welfare program (exclusive of health insurance) and leave sufficient revenues available to at least approach a reasonable average standard set in education and other services by other Provinces.

When the proposals of the government of Canada were presented it was thought to be the exact embodiment of what is desired for it proposed to equalize services in the various provinces. Federal agents, newspapers, politicians, radio, reconstruction organizations and other publicity means aroused the people to an awareness of a great reconstructive time approaching. I am afraid, I myself, have been guilty of holding out great hopes in the fields of public investment, social services and even education.

But I find that little or no provision is made for our economic need on Prince Edward Island, that we are paid per capita like other provinces, that nothing is provided beyond what will balance the budget and pay the pensions.

If the various small taxes were given back to the provinces it would still be inadequate. In fact two million is about one million away from a subsidy which would allow even a measure of what is envisaged in the proposals.

There is a danger in accepting the new plan for three years and allowing federal standards of salaries, wages and so forth to invade the province. It might be a more prudent policy to reject the whole plan unless a more liberal subsidy is provided and the plan be continued more than three years.

However, I would be willing to lay the decisions arrived at here before our government for their rejection or approval before committing ourselves.

CONCLUSION

We believe that, when our position has been examined by the other provinces and by the Dominion, when they thoroughly understand and appreciate the extent to which our expenditures have been curtailed in the past to ensure sound financing, and when they are convinced of the Province's inability to cope with the ever-expanding services with limited revenues, there will not be any fear of discrimination.

Whether or not the Dominion proposals are accepted, this Province urges the establishment of some form of Federal Council which in the future would control or advise upon all matters of financial relations. Such a council should comprise representatives of each of the provinces as well as of the Dominion.

The tables herewith presented are included so that the intention of the government's expenditures in the next three years can be declared to each province. Items considered necessary in other provinces are not included here. Mothers allowances, university grants, costly construction, extensive road building is not planned. Even the low level of expenditure proposed will require fifty per cent more as a subsidy than has been suggested so far by the government of Canada.

I might have remarked that "per capita" grants are very difficult to apply. If a province increases in population the grants increase. If the population decreases the converse will hold true more or less. Thus provinces might go into a declining spiral over a loss of population.

Corporations tend to locate in the central provinces. The control of custom and excise duties encouraged central location. They develop large centres of population. They are finally taxed heavily, but the taxes are passed by them to the ultimate consumer. After these taxes are distributed as subsidies to the provinces and elsewhere there still remains located in the central provinces the large population centres, the huge bargaining power, the political influence, the municipal comforts. They can provide for themselves such as electricity, medical services, entertainment, splendid housing, social life and many other benefits which amount to far more than the tax passed out to less-favoured localities—such as some of the provinces. The central provinces cannot afford to be selfish to their corporation's customers.

To summarize our position, I might quote to you, for instance, the average earnings of males, their wage earning in Canada: The average in Prince Edward

Island, in 1941, was \$596, and the average in Canada was \$988. The proportion of Prince Edward Island wage earnings to all of Canada was that of 1 to 10-64/100ths; and as against 1 to 5-44/100ths for all of Canada; in other words, Prince Edward Island had the lowest average wage earnings, about 60 per cent of the average of Canada, yet each wage earner in Prince Edward Island supported twice as many dependents as did the average wage earner in Canada.

The 1945 business Year Book showed the percentage of the total earnings of the province to be 26/100ths of the total earnings of Canada, and the population was 8/10ths. In other words, with a population of 8/10ths of Canada we earned only 1/3rd, I think, of what we should have earned.

Take it another way. Take the total provincial and municipal revenues of the provinces; this is the 1943 figure of the Dominion Study of Finances. The total provincial revenue of all provinces amounted to \$591,000,000 on a per capita basis; the province should have had \$4,728,000, but all we collected was \$1,562,000.

Now, if you want further proof of that, take the ninth victory loan. When the National Finance Committee made an assessment of \$1,330,000,000, they made an allotment for Prince Edward Island of \$3,300,000. If they had allotted it, recognizing their earning as much as the rest of Canada they would have allotted us \$10,644,000. So, even up here in Ottawa, when they get down to facts, they recognize that we have only about one-third as much money as the rest of Canada.

FINANCIAL ARRANGEMENTS BETWEEN THE DOMINION AND
THE PROVINCE OF PRINCE EDWARD ISLAND

STATEMENT No. 1

PRINCE EDWARD ISLAND

SUMMARY OF ANNUAL ESTIMATED REVENUE AND EXPENDITURE

For the Period April 1, 1946 to March 31, 1949

DOMINION PROPOSALS AND PRINCE EDWARD ISLAND RECONSTRUCTION PROGRAM AS IMPLEMENTED

Revenue projected at highest level during the period.
(Thousands of dollars)

Revenue, Current Account (Appendix A)	3,209
Expenditures, Current Account (Appendix B)	3,650
<hr/>	
Deficit before Health Insurance and Debt Retirement	441
Debt Retirement	460
<hr/>	
Deficit after Debt Retirement and before Health Insurance.....	901
Proposed Dominion Subsidy included in Appendix "A" (Irreducible minimum).....	2,000
<hr/>	
Total amount required annually from the Dominion Government to implement the Dominion proposals, exclusive of health insurance, and Prince Edward Island's Reconstruction program to March 31, 1949	2,901
Per Capita—1941 Census (approx.).....	\$31.00
Health Insurance, net expenditure	\$869,000

APPENDIX "A"

ANNUAL CURRENT REVENUE BY SOURCES

For the Period April 1, 1946 to March 31, 1949

(Assuming Dominion Proposals Implemented)

Projected at the highest level during the period.

(Thousands of Dollars)

<i>Taxes</i>	
Corporation—Income .....	.....
Other .....	.....
Income Taxes on Persons .....	.....
Succession Duties .....	.....
Real and Personal Property	120
Gasoline—net	375
Amusements	50
Tobacco	65
	<hr/> 610
<i>Licenses, Permits and Fees</i>	
Motor Vehicles	175
Other	60
Public Domain	2
Liquor Control—Net	350
Miscellaneous Revenue	12
<i>Total Revenue, Current Account collected from local sources</i>	<hr/> 1,209
Dominion of Canada—Proposed Subsidy (Irreducible Minimum)	2,000
<i>Total Revenue, Current Account</i>	<hr/> <hr/> 3,209

APPENDIX "B"

ANNUAL CURRENT EXPENDITURES

For the Period April 1, 1946 to March 31, 1949

(Assuming Dominion Proposals Implemented)

(Thousands of Dollars)

<i>Public Welfare</i>	
Health and Hospital Care	480
Labour	3
Relief (Unemployables)	10
Old Age Assistance 65-69, net	192
Other (including Civilian Blind, net)	41
	<hr/> 726
Education	884
Highways, Bridges and Ferries	901
Agriculture	207
Public Domain	6
Debt Charges, net, excluding Debt Retirement	520
Other Expenditure	406
<i>Total Expenditure, Current Account</i>	<hr/> <hr/> 3,650

DETAILED EXPENDITURE—CURRENT

(Thousands of Dollars)

PUBLIC WELFARE—(\$726)

Health and Hospital Care

(a) Public Health	146
(b) Falconwood Hospital	175
(c) Provincial Infirmary	75
(d) Provincial Sanatorium	125
(e) Vital Statistics	1
(f) Extra-mural Treatment of Tuberculosis	24
(g) Physical Fitness	5
(h) Department of Health and Welfare—Salaries and Expenses.....	19
(i) Crippled Children	5
(j) Other	5
	<hr/>
	580
Less Dominion Health Grants	100
	<hr/>
	480
	<hr/> <hr/>

Labour

(a) Electrical Inspection	3
---------------------------------	---

Relief

(a) Unemployables	10
-------------------------	----

Old Age Assistance, 65-69

1,010 Pensionees (Means-test system) at \$30 per month plus administration costs	192
--	-----

Other

Civilian Blind, Provincial Share	21
Grants to Orphanages, Red Cross Society, Evangeline Home, Free Dispensary, S.P.C.A., etc.	20
	<hr/>
	41
	<hr/> <hr/>

EDUCATION—(\$884)

(a) Prince of Wales College	88
(b) Prince Edward Island Libraries	17
(c) Scholarships	4
(d) Adult Education	13
(e) Inspection of Schools	25
(f) Teachers' Pensions and Superannuation	13
(g) Teachers' Salaries and Supplements	500
(h) Training Courses, Credit Unions, etc.	5
(i) School Supply	3
(j) Correspondence Instruction	7
(k) Regional Composite High Schools	100
(l) Handicrafts and Other Activities, Public Information	6
(m) Grants to Blind and Deaf Schools	5
(n) Home Economics	9
(o) Agricultural Extension Course	20
(p) Youth Training	50
(q) Departmental Salaries and Expenses	19
	<hr/>
	884

HIGHWAYS, BRIDGES AND FERRIES—(\$901)

(a) Departmental Salaries and Expenses	64
(b) Maintenance of Gravelled Roads	600
(c) Maintenance of Paved Highways	110
(d) Maintenance of Bridges	60
(e) Maintenance of Ferries	35
(f) Maintenance of Wharves	30
(g) Bushing Ice	2
	<hr/>
	901
	<hr/> <hr/>

AGRICULTURE—(\$207)

(a) Departmental Salaries and Expenses	8
(b) Field Inspection	32
(c) Grants to Farmers' Institutes	2
(d) Field Crops and Horticulture	10
(e) Exhibition and Livestock Judging	15
(f) Women's Institutes	10
(g) Bounties	5
(h) Livestock and Poultry	26
(i) Foxes	3
(j) Provincial Pathologists' Laboratory	16
(k) Seed Potato Industry	10
(l) Forestry	20
(m) Limestone	30
(n) Fisheries	20

207

PUBLIC DOMAIN—(\$6)

(a) Fish and Game Development.....	6
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DEBT CHARGES—(\$520)

(a) Estimated increase of \$90,000 over 1946 expenditure due to an estimated capital expenditure of \$2 million per annum during the next three years at a cost of 3 per cent	520
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OTHER EXPENDITURE—(\$406)

Legislation	44
Protection to Persons and Property	93
Tourist Promotion	41
Trade Representative	5
Electric Power Development	71
General Government	142
Provincial Survey	10

406

Total Expenditure (Current Account) exclusive of Debt Retirement	\$3,650
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DEBT RETIREMENT

Estimated increase of \$100,000 due to an estimated capital expenditure of \$6 million during the next three years	\$460
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PRINCE EDWARD ISLAND

SUMMARY OF ESTIMATED REVENUE AND EXPENDITURE

(Dominion Proposals and P.E.I. Reconstruction Program Fully Implemented)

Projected at Level of 8, 10 and 12 Billion Dollars

GROSS NATIONAL PRODUCTION

(Thousands of Dollars)

	\$8 Billion	\$10 Billion	\$12 Billion
Revenue, Current Account (Appendix "C")	3,045	3,225	3,310
Expenditure, Current Account (Appendix "D")	4,155	4,155	4,155
Deficit—Before Health Insurance and Debt Retirement	1,110	930	845
Debt Retirement	672	672	672
Deficit—After Debt Retirement and before Health Insurance	1,782	1,602	1,517
Proposed Dominion Subsidy	2,000	2,000	2,000
Total amount required annually from the Dominion Government to fully implement Dominion Proposals (exclusive of health insurance) and Prince Edward Island's Reconstruction Program	3,782	3,602	3,517
Per Capita—1941 Census (Approx.)	\$39	\$38	\$37
Health Insurance, net expenditure	\$869,000	\$869,000	\$869,000

REVENUE—SUMMARY BY SOURCES
(Assuming Dominion Proposals Implemented)

Projected at levels of Gross National Production of 8, 10 and 12 Billions
(Thousands of Dollars)

	\$8 Billion	\$10 Billion	\$12 Billion
<i>Taxes</i>			
Corporation—Income .....	....	....	....
Other .....	....	....	....
Income taxes on persons.....	....	....	....
Succession Duties .....	....	....	....
Real and Personal Property.....	120	140	140
Gasoline	300	375	400
Amusements	40	50	50
Tobacco	50	65	75
Total Taxes	510	630	665
<i>Licences, Permits and Fees</i>			
Motor Vehicles	170	170	170
Other	60	60	60
Public Domain	3	3	3
Liquor Control	290	350	400
Miscellaneous Revenues	12	12	12
Total Revenue, current account collected from local sources	1,045	1,225	1,310
<i>Dominion of Canada</i>			
Proposed subsidy	2,000	2,000	2,000
Total Revenue, Current Account.....	3,045	3,225	3,310

APPENDIX "D"

EXPENDITURES—CURRENT ACCOUNT

Projected at levels of Gross National Production of 8, 10 and 12 Billions
(Thousands of Dollars)

	\$8 Billion	\$10 Billion	\$12 Billion
<i>Public Welfare</i>			
Health and Hospital Care.....	480	480	480
Labour	3	3	3
Relief (Unemployables)	10	10	10
Old Age Assistance, 65-69.....	192	192	192
Other	41	41	41
Sub-total	726	726	726
Education	1,139	1,139	1,139
Highways, Bridges and Ferries.....	901	901	901
Agriculture	225	225	225
Public Domain	6	6	6
Debt Charges, Net, excluding Debt Retirement.....	752	752	752
Other Expenditure	406	406	406
	4,155	4,155	4,155

APPENDIX "D1"

DETAILED EXPENDITURE—CURRENT

(Thousands of Dollars)

PUBLIC WELFARE—(\$726)

Health and Hospital Care

(a) Public Health	\$ 146
(b) Falconwood Hospital	175
(c) Provincial Infirmary	75
(d) Provincial Sanatorium	125
(e) Vital Statistics	1
(f) Extra-mural Treatment of Tuberculosis	24
(g) Physical Fitness	5
(h) Dept. of Health and Welfare Salaries and Expenses	19
(i) Crippled Children	5
(j) Other	5

Less Dominion Health Grants	580
	100
	<u>\$ 480</u>

Labour

(a) Electrical Inspection	\$ 3
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Relief

(a) Unemployables	10
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Old Age Assistance 65-69

1,010 Pensionees (Means-test system) at \$30 per month plus administration costs	192
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Other

Civilian Blind, Provincial Share	21
Grants to Orphanages, Red Cross Society, Evangeline Home, Free Dispensary, S.P.C.A. etc.	20
	<u>\$ 41</u>

EDUCATION—(\$1,139)

(a) Prince of Wales College	\$ 88
(b) P.E.I. Libraries	17
(c) Scholarships	4
(d) Adult Education	13
(e) Inspection of Schools	25
(f) Teachers Pensions and Superannuation	13
(g) Teachers Salaries and Supplements	500
(h) Training Courses, Credit Unions, etc	5
(i) School Supply	3
(j) Correspondence Instruction	7
(k) Regional Composite High Schools	355
(l) Handicrafts and other activities, Public Information	6
(m) Grants to Blind and Deaf Schools	5
(n) Home Economics	9
(o) Agriculture Extension Course	20
(p) Youth Training	50
(q) Departmental Salaries and Expenses	19
	<u>\$ 1,139</u>

HIGHWAYS, BRIDGES AND FERRIES—(\$901)

(a) Departmental Salaries and Expenses	\$ 64
(b) Maintenance of Gravelled Roads	600
(c) Maintenance of Paved Highways	110
(d) Maintenance of Bridges	60
(e) Maintenance of Ferries	35
(f) Maintenance of Wharves	30
(g) Bushing Ice	2
	<u>\$ 901</u>

AGRICULTURE—(\$225)

(a) Departmental Salaries and Expenses	\$ 8
(b) Field Inspection	32
(c) Grants to Farmers Institutes	2
(d) Field Crops and Horticulture	10
(e) Exhibitions and Livestock Judging	15
(f) Women's Institutes	10
(g) Bounties	5
(h) Livestock and Poultry	26
(i) Foxes	3
(j) Provincial Pathologist's Laboratory	16
(k) Seed Potato Industry	10
(l) Forestry	38
(m) Limestone	30
(n) Fisheries	20
	<hr/>
	\$ 225
	<hr/>

PUBLIC DOMAIN—(\$6)

(a) Fish and Game Development	\$ 6
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DEBT CHARGES, NET (\$752)

(a) Interest on Debentures, Loans and Overdraft	\$ 822
(b) Debenture Discount Amortized	30
	<hr/>
	852
Less Sinking Fund Earnings	100
	<hr/>
	\$ 752
	<hr/>

OTHERS EXPENDITURES (\$406)

Legislation	\$ 44
Protection to Persons and Property	93
Tourist Promotion	41
Trade Representative	5
Electric Power Development	71
General Government	142
Provincial Survey	10
	<hr/>
	\$ 406
	<hr/>

Total expenditure (Current Account) exclusive of Debt Retirement).....\$ 4,155

DEBT RETIREMENT

Increase of \$372,000 over 1945-46 Estimates. Increase based on 12.5 million dollar
proposed capital expenditure at 3 per cent.....\$ 672

STATEMENT 3

STATEMENT OF TOTAL DEBT

As at 1925, 1935, 1945 and 1946

(Thousands of Dollars)

Total Liabilities as at December 31st, 1925	\$ 2,049
Total Liabilities as at December 31st, 1935	5,222
Total Liabilities as at March 31st, 1945	9,676
Total Liabilities as at March 31st, 1946 (Forecast)	10,515
Total increases from 1925 to 1946 incl.	8,466

STATEMENT A

STATEMENT OF TOTAL DEFICITS ON CURRENT ACCOUNT AFTER PROVIDING SINKING FUND PROVISIONS

(Thousands of Dollars)

Total deficits from January 1, 1926 to December 31, 1935.....	1,255
Total deficits from January 1, 1936 to March 31, 1944.....	469
Total deficits from April 1, 1944 to March 31, 1945.....	348
Forecast deficit from April 1, 1945 to March 31, 1946.....	447
Estimated deficit from April 1, 1946 to March 31, 1947.....	620
	<hr/>
	3,139
	<hr/>

AVERAGE EARNINGS OF MALES, AND WAGE-EARNERS TO DEPENDENTS

Average earnings of males in P.E.I. in 1941 was \$596.00 against the average earnings of males in Canada \$988.00.

The proportion of wage-earners to total population in P.E.I. was 1—10.64 as against 1—5.44 for all of Canada.

In other words, P.E.I. had the lowest average wage-earnings (approximately 60%) of the average of Canada, yet each wage-earner in P.E.I. supported twice as many dependents as did the average wage-earner throughout Canada.

EARNINGS AND POPULATION

From the 1945 Business Year Book published by McLean-Hunter Publishing Company, Limited, the percentage of the total earnings by Provinces showed Prince Edward Island having 0.26% of the total earnings of Canada, with a population of .8% of all Canada.

REVENUE FROM PROVINCIAL SOURCES

1943

(Figures Taken from Dominion Study of Finances)

Total Provincial and Municipal Revenue for all provinces amounted to \$591,000,000.

On a per capita basis (P.E.I. having .8% of the population) the Province would have had \$4,728,000 instead of \$1,562,000 as shown.

This \$1,562,000 is approximately one-third the per capita rate for Canada.

9TH VICTORY LOAN

The total assessment for the whole of Canada was thirteen hundred and thirty million dollars.

On a per capita basis, Prince Edward Island having .8% of the population, the allotment for Prince Edward Island would be \$10,664,000.

Prince Edward Island's capacity to contribute must have been taken into consideration by the National Finance Committee as the assessment was only \$3,300,000 or approximately one-third.

STATUTORY AND INTERIM SUBSIDIES PER CAPITA

(Period of 27 years)

	Canada	P.E. Island	8 Provinces	P.E. Island
1913... ..	\$1.52	\$4.06	\$1.49	\$4.06
1933... ..	1.43	5.63	1.40	5.63
1937... ..	1.97	7.06	1.93	7.06
1939... ..	1.76	7.00	1.70	7.00
	<hr/>	<hr/>	<hr/>	<hr/>
AVERAGE... ..	\$1.67	\$5.94	\$1.63	\$5.94
	<hr/>	<hr/>	<hr/>	<hr/>

PRINCE EDWARD ISLAND'S
POST-WAR RECONSTRUCTION PLAN—FINANCIAL

On August 7, 1945 the Province of Prince Edward Island presented to the Conference an Interim Report of the Prince Edward Island Advisory Reconstruction Committee. The Report is the efforts of this Committee who were instructed by the Executive Council under the authority of the Prince Edward Island Reconstruction Committee Act, 1945, to study and report on a programme of post-war reconstruction insofar as it affects this Province and to act in co-operation with federal and provincial authorities in formulating policies and measures necessary to deal with the problems involved.

This Interim Report has been compiled from briefs which were received by the Committee from various organizations and associations. These briefs were studied by eight Technical Committees appointed by Order-in-Council to assist the main Committee, and covered the following fields: Education, Agriculture, Fisheries, Tourist Promotion and Transportation, Public Health and Welfare, Public Services, Forestry and Housing.

It will be noted that the total expenditure involved in carrying out this plan will amount to an annual increase to the Government of Prince Edward Island of \$2,237,655 on current account.

	Estimated Annual Current Expenditures (Thousands of Dollars)	Increase over Estimate for year ending March 31, 1946
Public Welfare.....	1,058	223
Education	1,039	574
Justice	96	17
Legislation	53	25
Agriculture	254	181
Tourist Promotion	41	24
Highways, Bridges, etc.	876	273
Refunds and other Expenses	117	38
General Government	300	139
Interest on Debentures, etc.....	822	372
Sinking Fund Provision	672	372
	<u>\$5,328</u>	<u>\$2,238</u>

One-third of this \$2,238,000 is accounted for by the annual increase on debt charges (\$744,000) on the capital expenditures which the Provincial Government has included in its programme.

ESTIMATED ANNUAL CURRENT EXPENDITURES WHEN THE PRINCE
EDWARD ISLAND GOVERNMENT'S RECONSTRUCTION
PROGRAM IS FULLY IMPLEMENTED

1. Debt Charges		
(a) Interest on Debentures, Loans and Overdraft.....	\$ 822,000	
(b) Sinking Fund Provision.....	672,000	
	<u>1,494,000</u>	
2. Public Welfare		
(a) Public Health	\$ 131,000	
(b) Falconwood Hospital	220,000	
(c) Grants to Hospitals.....	60,000	
(d) Grants to Institutions.....	110,000	
(e) Child Welfare	10,000	
(f) Old Age and Blind Pensions—Gross.....	489,000	
(g) Unemployment Assistance	10,000	
(h) Vital Statistics	1,000	
(i) Extra-mural Treatment of Tuberculosis.....	24,000	
(j) Other	3,000	
	<u>1,058,000</u>	

3. Education			
(a) Prince of Wales College.....	\$	88,000	
(b) Prince Edward Island Libraries		16,500	
(c) Scholarships		4,000	
(d) Adult Education		13,000	
(e) Inspection of Schools.....		25,000	
(f) Teachers' Pensions and Superannuation.....		13,000	
(g) Teachers' Salaries and Supplements.....		500,000	
(h) Training Courses, Credit Unions, etc.....		5,000	
(i) School Supply		2,500	
(j) Correspondence Instruction		6,500	
(k) Physical Fitness		5,000	
(l) <i>Regional High Schools</i>			
(i) Operating Costs	\$	300,000	
(ii) Transportation of Pupils		55,000	
		<hr/>	
(m) Handicrafts and Other Activities, Public information....		355,000	
		5,500	
		<hr/>	
			1,039,000
4. Legislation			
(a) Elections	\$	1,000	
(b) Government House		1,000	
(c) Legislative Assembly		38,000	
(d) Legislative Library		4,000	
(e) Provincial Auditor's Office		9,000	
		<hr/>	
			53,000
5. Administration of Justice			
(a) Supreme Court	\$	20,000	
(b) County Courts		4,000	
(c) Magistrates' Courts		6,000	
(d) Royal Canadian Mounted Police		20,000	
(e) Jails, etc.		25,000	
(f) Coroners' Inquests		2,000	
(g) Administration of Prohibition Act		19,000	
		<hr/>	
			96,000
6. Agriculture			
(a) Field Inspection	\$	32,000	
(b) Grants to Farmers' Institutes		1,000	
(c) Dairying		2,000	
(d) Field Crops and Horticulture		10,000	
(e) Exhibitions and Livestock Judging		15,000	
(f) Women's Institutes		10,000	
(g) Bounties		5,000	
(h) Livestock and Poultry		26,000	
(i) Foxes		2,500	
(j) Fish and Game Development		6,000	
(k) Other Agriculture—Miscellaneous		1,500	
(l) Provincial Pathologist's Laboratory		16,000	
(m) Seed Potato Industry		10,000	
(n) Home Economics		9,000	
(o) Agriculture Extension Course		20,000	
(p) Youth Training		50,000	
(q) Forestry		38,000	
		<hr/>	
			254,000
7. Tourist Promotion			
(a) Travel Bureau and Information Offices			41,000
8. Highways, Bridges, Ferries, Etc.			
(a) Administration	\$	49,000	
(b) Maintenance of Highways		600,000	
(c) Maintenance of Paved Highways		110,000	
(d) Maintenance of Bridges		50,000	
(e) Maintenance of Ferries		35,000	
(f) Maintenance of Wharves		30,000	
(g) Bushing Ice		2,000	
		<hr/>	
			876,000
9. Refunds of Revenue—Gasoline Rebates, etc.			101,000
10. Other Expenditures—Current			16,000

11. General Government		
(a) Executive Council	\$ 25,000	
(b) Departmental Offices	153,000	
(c) Registry Offices	13,500	
(d) Provincial Survey	10,000	
(e) Trade Representative	5,000	
(f) Reconstruction—Secretary's Office	5,000	
(g) Power Commission	71,000	
(h) Miscellaneous	17,500	
		300,000
Total Estimated Current Expenditures		\$5,328,000

Capital and
Special
Expenditures

Public Welfare		
Nurses' Residence at Falconwood Hospital	\$ 125,000	
Treatment Wing at Falconwood Hospital	250,000	
Extension to Provincial Infirmary	100,000	
Provincial Sanatorium	100,000	

Education		
Regional Composite High Schools	2,394,000	
Rural School Improvements	127,500	

Justice		
Prison Farm	50,000	
Liquor Warehouse	75,000	

Agriculture		
Livestock Pavilion	100,000	
Drainage (Agriculture)	20,000	
Limestone (Agriculture)	30,000	
Fisheries	20,000	
Land Fencing	112,800	

Department of Highway and Public Works		
Paved Highways	5,077,000	
Gravel Highways	2,197,250	
Public Works General	1,826,000	
Administration Building—Government	250,000	
		\$12,854,550
Rural Electrification		3,029,500
		\$15,884,050

In addition to the Province expending \$2,238,000 on current account and \$16,000,000 (approximately) on capital and special expenditures, the City of Charlottetown and other municipalities have included in the Report of the Province their plan which is hereunder summarized:—

City of Charlottetown Projects	\$1,129,250
(Page 8 of Interim Report)	
Town of Summerside Projects	504,200
Town of Kensington (Page 259)	197,000

The details of all these expenditures are clearly set out in the Report and are considered to be the most beneficial for the post-war period.

Mr. MACKENZIE KING: We will now hear from the Premier of Saskatchewan, Mr. Douglas.

PROVINCE OF SASKATCHEWAN

Hon. THOMAS C. DOUGLAS (Premier): Mr. Prime Minister and gentlemen: I must confess that I never expected to see you, sir, occupying a seat in Senate, and I am even more surprised to find myself sitting here with you. I think it would be just as well for us to meet elsewhere, after this afternoon, lest we become too enamoured with the comfort and security of this chamber. May I say, sir, that I have a document here of considerable bulk which substantiates the arguments that I am about to submit.

The Saskatchewan Government desires to make its position clear with reference to the amended Dominion proposals as presented to this conference. As I stated last August we are prepared to surrender to the Dominion Government the sole right to levy personal income and corporation taxes and succession duties, but we feel that the grants made to the Provinces in lieu of these taxes should be based on the fiscal needs of the various provinces.

That there should be grants of some kind payable by the Dominion to the Provinces seems to have been conceded at the time of Confederation, and ever since, and this conclusion seems all the more obvious if the chief sources of revenue through taxation are to be surrendered by the Provinces to the Dominion. It seems equally obvious that these grants should be on the basis of fiscal need.

It was a declared purpose of Confederation as expressed in the British North America Act that the identity of the provinces should be preserved and it is difficult to see how this can be accomplished unless these provinces are in a position to discharge their obligations up to the prevailing concept of social services. In this regard it may be worth noting that in the course of the Confederation Debates, Honourable A. T. Galt made the following significant statement:—

I now propose, Sir to refer to the means which will be at the disposal of the several local governments to enable them to administer the various matters of public policy which it is proposed to entrust to them, and it is evident that unless ample provision is made in the arrangements, great danger will arise that the machinery whereby the local wants of the people are intended to be met will speedily become impaired, causing complaint on the part of the inhabitants of the respective localities and involving considerable danger to the whole machinery of government.

Summarizing the matter of the purpose of subsidies, Dr. R. A. MacKay, Professor of Political Science in Dalhousie University, has written as follows:—

It thus seems clear that fiscal need was the paramount consideration behind the subsidies provided in the British North America Act, 1867 and that the principle of equality of treatment as between the provinces and the question of the adequacy of financial return for lost taxing powers and to give way to fiscal need.

It may therefore be assumed that subsidies were originally paid on the principle of satisfying the fiscal needs of the provinces and the fact that a mistake was made in calculating them largely on the basis of population does not affect the argument now being made. Nor does the fact that the needs of the provinces have vastly increased since 1867, largely through an expanding concept of social services, alter the argument. Indeed the argument is strengthened as the obligations of the provinces become greater. Moreover, it is here submitted that in a country such as Canada, claiming nationhood, with matters of finance virtually under the control of the central government, it is unthinkable that human beings should be prejudiced by the accident of living in one part of Canada rather than another.

The conclusions reached above were forcibly expressed in the Sirois Report after extended study by the Royal Commission on Dominion-Provincial Relations. In Vol. II, page 109, the following appears:

The taxes recommended to be left exclusively to the Dominion applied in a large part to income and wealth which is national in character, in substantial measure the product of national policies and which cannot be identified with purely local effort or local needs. Nevertheless, under the present system the bulk of this income and wealth is concentrated in a few localities. Consequently, a few provincial governments are in very favourable positions in respect to reserves of taxation, and others in very inferior positions.

To this view we subscribe and in our province we are under no illusions as to the part that certain national policies have played in the concentration of national wealth in certain areas. We do not criticize these policies at this time. But if trade, commerce, the tariff, monetary policy, and so on, are to be dealt with nationally, the nation should see to it that the citizens of no area fall below the national average in the matter of social and educational services.

It is a matter of great regret to the Saskatchewan Government that the Dominion has apparently abandoned the Sirois Report. That report took the position which we endorse, namely, that the proceeds from the Income, Corporation Taxes and Succession Duties is not the wealth of the provinces, but the wealth of the nation and should be distributed so as to make possible a minimum standard of social services throughout Canada.

Not only were the original proposals of the Dominion Government not based on fiscal need, but the modifications which have taken place since last August have moved even further away from that basis. Under the present modified proposals, Saskatchewan will receive about 20 per cent more money while some other provinces will receive almost 100 per cent more. We are not objecting to what other provinces get, but we are pointing out that the basis of fiscal need has been largely abandoned in arriving at these subsidies, with the result that Saskatchewan is in a relatively worse position than it was before, even though it is being offered a slightly larger grant.

The discussions which have taken place since last August make it abundantly clear that there is need for a complete reallocation of taxing powers as between the Dominion and Provincial Governments. It is equally clear that such a reallocation cannot be worked out completely between now and the expiration of the present Dominion-Provincial Tax Agreements. For that reason the Province of Saskatchewan is prepared to accept the Dominion Government's offer as it now stands for a trial period in the hope that during the next three years a more satisfactory formula can be devised. We are prepared to accept the present proposals, not because they are based on fiscal need, but because with all their defects they represent a greater recognition of fiscal need than anything else which seems to be obtainable at the present time.

I should probably pause here to say that not only do they contain a greater measure of fiscal need than anything else which is obtainable, I think, but more than anything else which has been proposed which seems likely to get a general acceptance. Like the premier of Manitoba, I was not clear on the full implications contained in the brief submitted by Premier Drew of Ontario yesterday. I hope, that while we are here in open session, we will get, at least, two points that are not clear to me dealt with. The first point is as to the meaning of the formula, which I must confess is not clear to me. I am not clear as to whether X is to be the same for all provinces or whether it is to be determined by an amount of taxes collected from some of the tax fields which the province of Ontario wants to retain. Also, there is a reference to the fiscal need in the Ontario brief, a reference which still leaves me completely at a loss to know just

exactly what is proposed. A reference is made back to the brief of Ontario issued last January, I think, which at that time, as I remember it, suggested that the provinces should place into a fund some 10 per cent, or some percentage of certain taxes to be reallocated between the provinces. Now, it is not clear here as to just how that would be allocated or, on what basis, nor what the sum of money would be likely to amount to. That would be of considerable importance; so, when I say that the proposals as they now stand, I am not including Ontario's proposals, because I am not just clear what they mean; but if they mean what they seem to mean, I may say, that as far as we are concerned, they do not represent fiscal need at all, but are rather a source of federated poor-box, into which contributions will be made by the provinces, and the poor relations will line up at Christmas time to get a handout from the fund.

We believe that the funds collected from corporation income tax and succession duties, come as a result of national participation and ought to be distributed on a basis of fiscal need, so that people living in any part of Canada will be able to enjoy a certain minimum standard of social welfare.

In saying that we will accept the federal government's offer, I want to make it perfectly clear that we will continue throughout these discussions to press for a recognition of fiscal need. If this cannot be done by a further modification of the proposed subsidies, I shall continue to stress the need for an emergency grant to meet such crises as drought, crop failure and agriculture relief. The fact that the four Western Provinces still owe millions of dollars to the Dominion Government for relief given during the hungry thirties is proof that we are not in a financial position to meet any economic crisis which might arise. The proposed subsidies will enable most provinces to operate, although it will not eliminate the inequalities in the services given, but the proposed subsidies will not enable the provinces to finance through a period of crop failure or low prices. In periods of low income, not only are the obligations of the governments vastly increased through demands for various types of relief and public works, but government revenues decline with dramatic suddenness. The provision of an emergency grant, such as that proposed in the Sirois Report, seems to be the only solution. We will continue to press upon the Dominion Government the need for making an emergency grant available as a partial recognition of the element of fiscal need in Dominion-Provincial Agreements.

In accepting the modified Dominion proposals, there is one point I must make crystal clear. The Federal Government has refused to give up the right of set-off in any agreement which it signs. The Federal Government holds several million dollars worth of Treasury Bills from four of the Provinces represented here—Saskatchewan is one of them. I think it is apparent to everyone that we could not sign an agreement under which the Dominion could withhold our entire subsidy, or a substantial portion of it, by applying it against the Treasury Bills which they now hold. The right of set-off with regard to future obligations we can agree to, but we would require an undertaking that the Federal Government would not make demand for these relief obligations except under the terms of an agreement which we are prepared to negotiate with them.

So that there will be no misunderstanding, I want to put it on record that when we say we will accept the Dominion proposals in their amended form, we are referring not only to the cash subsidies proposed but also to the Health Insurance, Old Age Pensions and other proposals contained in the Federal Government's brief of last August. We consider these offers of assistance in establishing certain social services as an integral part of the Dominion offer and to us they are as important as the cash subsidy. Any modification or reduction in the social welfare proposals would force us to seriously reconsider our acceptance of the Dominion Government's offer. But with the cash subsidy now outlined and the proposals of last August combined into a single entity.

we are prepared to surrender to the Dominion Government the sole right to levy Income, Corporation Taxes and Succession Duties for a period of three years.

While we are prepared to accept the Dominion proposals in principle, I should like, before I sit down, to call attention to certain features concerning which I believe there should be further discussion in committee. The first of these is the position of the self-employed.

BENEFITS FOR THE SELF-EMPLOYED

The Federal Government's proposals to the Dominion-Provincial Conference on Reconstruction involve relieving the provinces of the burden of unemployment relief by providing either unemployment insurance or unemployment assistance to all employable unemployed persons. Under the Dominion's proposals, however, the provincial governments would still be responsible for the relief of all groups of self-employed persons who suffer loss of income. The Saskatchewan Submission of January, 1946, pointed out that this division of responsibility discriminates seriously against the predominantly agricultural provinces whose burden of unemployment relief may be relatively light, but who may have to provide relief for very large numbers of farmers in years of drought and crop failure; and in other provinces it is equally true of those working in the woods, fishermen, trappers and so on.

In its January Submission this Province contended that if the Dominion is to give equal treatment to all the provinces, it must guarantee to the self-employed who suffer loss of income from causes beyond their control a measure of economic security at least comparable to that which it proposes for employees in trade and industry. The Government of Saskatchewan suggested that this might be achieved by (a) a guaranteed floor under prices and (b) a crop insurance scheme or, in the alternative, an extension of present benefits under the Prairie Farm Assistance Act.

The Dominion has already taken the first step toward a guaranteed floor under prices by its Agricultural Prices Support legislation. If this legislation is fully implemented and is combined with Federal marketing boards, similar to the Canadian Wheat Board, for all grains, livestock and livestock products, protection of the farmer who manages to produce a crop is reasonably well assured. But for the farmer who suffers a total or partial crop failure, additional assistance is required. The Government of Saskatchewan contends that this problem is as much a national responsibility as unemployment relief. A national scheme of crop insurance financed by contributions from the federal and provincial governments and from all farmers in Canada would be the ideal solution. Failing such a scheme, a substantial extension of P.F.A.A. benefits is absolutely essential if our farmers are to be guaranteed protection against loss of income even roughly equivalent to that projected for industrial employees. In this submission we propose to demonstrate that present P.F.A.A. benefits fall far short of unemployment benefits and to suggest the lines along which such farm benefits should be revised.

Our basic premise is that the Prairie Farm Assistance Act is good as far as it goes and benefits not only the western farmer, but Canada as a whole since a stabilized western economy is necessary for the economic welfare of the country. Our present proposals are designed solely to indicate how P.F.A.A. can be made a more effective instrument for the stabilization of western agriculture.

Unemployment Benefits vs P.F.A.A. Benefits

Unemployment insurance benefits range from \$4.08 to \$14.40 a week depending on the rate of contribution by the worker and whether or not he has depend-

ents. The dominion proposals would provide unemployment assistance at 85 per cent of these rates to all uninsured workers (and to those insured workers whose benefits have been exhausted), steps being taken at the same time to bring as many workers as possible directly under unemployment insurance. Unemployment insurance benefits paid continuously for a period of 52 weeks would involve payments ranging from \$212.16 to \$748.80. While few, if any, workers at present, draw these benefits for a whole year, the possible yearly payment is the only appropriate figure to use for comparison with the assistance required by farmers under P.F.A.A. since a farmer who suffers a crop failure needs assistance for the full twelve-month period, that is until his next crop is marketed.

Unemployment insurance statistics show that far more workers are at present qualifying for benefits at the upper end of the scale than at the lower end. In 1943, for example, the average daily benefit paid was \$1.84 which would be equivalent to \$574.08 for a year of 312 working days. In 1944 it was \$1.91 equivalent to \$595.92 a year and in 1945, \$1.95½ equivalent to \$609.96 a year. In December, 1945, and January, 1946, the latest months for which figures are available, the average daily benefit was \$2.05 which would amount to \$639.60 on a yearly basis. It is evident, therefore, that unemployed insured workers have been receiving on the average, during the past three years, benefits which on a yearly basis would range from \$575.00 to \$640.00. Unemployment assistance would provide them with 85 per cent of these amounts.

The present benefits paid to farmers under the Prairie Farm Assistance Act fall far short of these amounts. The maximum amount payable to any farmer under P.F.A.A. is \$500, but careful examination of the record shows that the highest average payment for complete crop failure in any province in any of the six years since the Act went into effect was under \$400.

It is neither suggested nor implied that farmers who suffer only a partial loss of income should receive the same benefits as unemployed workers. It does, however, seem reasonable that farmers with a complete crop failure should receive no worse treatment than the unemployed. Yet farmers in the three Prairie Provinces have received an average of only \$369 per year and those in the lowest yield category of an "emergency year" only \$250 per year in the past six-year period.

In order to obtain unemployment benefits presently equivalent to \$640 a year, workers contribute from 12 to 36 cents a week or from \$6.24 to \$18.72 a year. A rough estimate of the average contribution per worker can be made by dividing the number of persons in insurable employment at April 1, 1943, into the total employee contributions for the fiscal year 1943-44 and the same can be done for 1944-45 figures. The results show an average contribution per worker of \$16.50 in 1943-44 and \$15.57 in 1944-45. We recognize that these contributions are only approximate since the number insured at April 1 in any year may be unduly low or high and a number of persons may be insured for only part of the fiscal year.

Under the provisions of the Prairie Farm Assistance Act, western farmers contribute one per cent of the value of all grain marketed. During the past six years the average annual contribution per farm operator (using 1941 census figures for farm operators) was \$13.11 in Saskatchewan and approximately \$10.80 in the three Prairie Provinces. This is not far below the average employee contribution under unemployment insurance. Certainly the amount by which it is below does not appear proportionate to the amount by which average P.F.A.A. benefits are below average unemployment benefits.

It is an interesting and significant fact that during the past six years farmers' contributions through the one per cent levy have paid for 42 per cent of the total benefits paid out under P.F.A.A. In Saskatchewan contributions through the one per cent levy have covered about one-third and in Alberta

about one-half of the payments made; in Manitoba contributions have exceeded benefits.

With respect to unemployment insurance it is interesting to note that employee contributions amount to only about 45 per cent of the total contributions by workers, employers and the government (1943-44 and 1944-45 figures). The employer's contribution is part of his cost of production and as such will usually be passed on to the consumer; consequently it is not very different from the Government's share—it is paid by the people at large. But the main point here is that if the workers are expected to pay only 45 per cent of unemployment insurance, farmers should not be expected to pay a higher proportion of P.F.A.A. benefits. It should also be pointed out that the government alone will pay the entire cost of unemployment assistance, so that the workers' share of the total cost of unemployment insurance and unemployment assistance will be much less than 45 per cent. Thus the farmers' present contribution to P.F.A.A. by no means compares unfavourably with the workers' contribution to unemployment relief.

The federal government bears the administrative costs of both P.F.A.A. and unemployment insurance. Administrative expenses of P.F.A.A. have never exceeded half a million dollars and were as low as \$186,767 in 1944-45. Unemployment insurance costs, on the other hand, outside of the first year of operation have never been less than $4\frac{1}{2}$ millions and averaged a little over \$5 millions during the past two years. Per capita cost are also much higher for unemployment insurance than for P.F.A.A. In 1944-45, for example, the cost of administration per insured worker as at April 1, 1944, was approximately \$2.30 while the costs of administration of P.F.A.A. per farm operator in the three prairie Provinces was approximately 63 cents.

P.F.A.A. Benefits Offer Inadequate Protection

It is frequently asserted that a farmer's cost of living is lower than the industrial worker's, since a farmer produces at least some of his own food. This is more true of the Eastern than the Western farmer, and, in turn of the Western farmer on a small unit in the park belt than of the large specialized wheat farmer of the Palliser Triangle where most crop failures occur. Moreover, a farmer has other expenses which the urban worker does not have. The worker needs only his two hands to earn his living but the farmer must have seed, feed, fodder, gasoline, machinery and equipment before he can earn a cent. If he has no crop, he must obtain money for his production expenses of the next year from some other source—usually either by credit advances or relief in the form of agricultural aid from governments. If P.F.A.A. payments are to take the place of relief, they must provide the farmer with enough to cover his minimum out-of-pocket expenses as well as a minimum subsistence.

Intensive studies made by the Department of Farm Management of the University of Saskatchewan during the period 1929 to 1940 show that out-of-pocket costs of production vary according to the size of the farm and the yield per acre. It is quite apparent from these studies that the absolute minimum required for such out-of-pocket expenses—exclusive of any provision for depreciation or replacement of buildings and equipment—by a relatively small wheat farmer (one-half to three-quarter section unit) in a year of complete crop failure would be at least \$500.

Cash living costs for farm families were also studied by the Farm Management Department over the same period. These studies indicate that even in the depths of the depression, few farmers in the wheat-growing areas could manage with less than \$400 to \$500 for cash living expenses and undoubtedly very large numbers were not spending enough to maintain health adequately. It must be emphasized that these figures represent actual expenditures rather than scientific estimates of the amount needed for proper maintenance of health and welfare.

From the Farm Management studies, therefore, it seems abundantly clear that \$500 for living expenses and another \$500 for farm expenses is a rock-bottom minimum for the average prairie farmer. We submit, accordingly, that in view of the total amount of assistance required by the average farmer in a year of crop failure, an increase in the maximum payment under P.F.A.A. to \$1,000 for farmers with a complete crop failure would not be unreasonable. Corresponding increases in the schedule of payments for farmers with a partial crop failure and adjustment of the minimum payable to the small farmer would involve no special problems.

Other Proposed Changes in P.F.A.A.

(a) Automatic Operation—As was pointed out in the Saskatchewan Submission of last January, there are a number of other aspects of the present Prairie Farm Assistance Act which, in our opinion, operate to reduce its value as a farm security measure. For instance, we submit that the discretionary power given to the Governor-in-Council to bring the Act into effect in any year should be removed and the Act be automatically operative in the same way as the Unemployment Insurance Act.

(b) Required Minimum Number of Townships—The P.F.A.A. requirement that a minimum number of townships in each province must suffer a crop failure (5 bushels per acre or less) before the highest rate of benefit is paid in the province causes considerable hardship and inequity and has no parallel in the Unemployment Insurance Act. Under the latter, benefits are paid on the basis of individual need and are not withheld as in the case of P.F.A.A. until the problem reaches a certain magnitude. The view that the federal government should not be expected to assume full responsibility for a crop failure unless it is sufficiently widespread to affect 171 townships in Saskatchewan is no longer acceptable now that the federal government has offered to assume full responsibility for guaranteeing a job or an income in lieu of a job to all employables. In equity, the Dominion should also stand prepared to guarantee a minimum income to all self-employed persons who suffer loss of earnings through causes beyond their control. Any other course means discrimination in favour of the industrial provinces.

We submit, therefore, that equal treatment for the self-employed implies abandonment of any required minimum number of townships and combining the crop failure and emergency year provisions of the Act into one scheme under which farmers would receive adequate aid on a scale varying with their yield.

(c) The Unit for Determining Eligibility—It has been widely advocated that P.F.A.A. should be placed on an individual farm basis instead of on a township basis as at present. The chief argument against the individual farm basis is the administrative difficulties. While we appreciate the administrative problems involved in adopting the individual farm as the unit for determining eligibility for benefits, we are of the opinion that the fullest possible consideration should be given to this problem and every avenue explored by which the Act might be made to approach more closely to an individual farm basis.

If the benefits under P.F.A.A. are to be substantially increased, as has been requested above, it will undoubtedly be urged that the one per cent levy on all grain marketings should also be increased in order to preserve a proper ratio between disbursements and collections. What the proper ratio is we do not presume to say. It has been shown above that the one per cent levy paid for 42 per cent of disbursements in the past six years. It is admitted that most of this period was marked by better than average prices and yields so that in more normal times collections under the one per cent levy might be expected to be a some-

what smaller part of the total cost of the scheme. However, with workers contributing directly only 45 per cent of total contributions to the unemployment insurance fund and nothing towards unemployment assistance, and with the administrative costs of unemployment insurance averaging from three to four times as much per head as the costs of P.F.A.A., we do not feel that the farmer should be expected to pay an unduly large proportion of P.F.A.A. benefits.

There is evidence, however, that farmers in the areas which have benefited at any time under the P.F.A.A. are prepared to pay a higher levy in order that the benefits may be increased. Thus, the Saskatchewan Association of Rural Municipalities at its last annual convention held in Saskatoon, March 13-15, 1946, passed the following resolution: "That the Crop Failure Bonus be increased to \$5.00 per acre and that the maximum be \$1,000 and the assessment two per cent, and that payments be made on an individual basis." Two per cent appears to be a reasonable levy, particularly in view of the fact that most workers contribute rather less than two per cent of their wages to unemployment insurance.

It is suggested that, should the Federal Government feel it desirable, sufficient statistical data is now available to permit the introduction of a simple zoning system, leaving the northern and north-eastern areas of this Province under the present one per cent levy, which is sufficient to cover the known risk, at the same time providing a higher rate for the more significant wheat-growing areas subject particularly to periodic drought. The situation appears to be roughly comparable in Manitoba and Alberta. If that is so it may be possible to divide the whole of the three Prairie Provinces into two simple zones with the entire Palliser Triangle taking the higher premium and the less variable areas retaining the present one per cent levy.

It should, perhaps, be emphasized that, while the present recommendations of the Province of Saskatchewan would involve a doubling of benefits, a general increase in the levy to two per cent—or even introduction of the simple zoning system described above—would leave the ratio between disbursements and collections virtually unchanged. Admittedly, the ratio—and the Dominion's contribution under P.F.A.A.—may be changed by variations in economic conditions, but this is equally true with respect to the heavy burden of responsibility which the Dominion has announced it is prepared to assume for unemployed workers under the proposals respecting unemployment insurance and unemployment assistance. We do not feel the Dominion can, in terms of simple economic justice, decline to do less for the equally exposed and vulnerable agricultural population of the Prairie Provinces.

We should like to state that our present recommendations respecting increased benefits and protection for the farmer under the Prairie Farm Assistance Act do not exhaust our ideas of what should be done by Governments to bring some measure of stabilization to the agricultural economy of Saskatchewan. Our present recommendations should be read as supplementary to all that we said in our January Submission about the vital necessity of price stabilization, floor prices, control of marketing, irrigation and extension of P.F.R.A. and what has been said both before and since with respect to averaging farm income over a number of years for income tax purposes.

OTHER PROPOSALS

Old Age Assistance

In the matter of old age pensions and assistance, Saskatchewan is not entirely satisfied with the Dominion proposals. Nevertheless these proposals are much better than no proposals at all. I heartily endorse that feature which removes the means test in the case of persons seventy years of age and upwards. This is a move in the right direction. I feel, however, that I should repeat the

opinion of the Saskatchewan Government that the means test should be removed in the case of persons in the 65-69 age group. Our reasons for holding this opinion have been set out in detail in our written submission to the Conference. It is also our firm opinion that the Dominion should assume full responsibility for the payment and administration of old age pensions in both age groups. The centralization of administration should prove both convenient and effective and the payment from Dominion funds would go a long way in the direction of meeting the fiscal needs of many of the provinces.

Public Investment

I should like also to make a few observations concerning the public investment program. We have been disappointed that the scheme has not been initiated before this, at any rate in our own province. We have been disappointed as a government and many municipal bodies have expressed dissatisfaction that no announcement has been made concerning the availability of planning grants. We are also of the opinion, and have so expressed it in our general submission, that several details in the plan should be changed, such as the method of timing and the size of the grants to be made by the Dominion. We are optimistic that these details can be adjusted satisfactorily in committee. It seems to one also that the success of the public investment program will depend more on the good sense shown by the governments, both Dominion and provincial, after the agreement is signed than on the form of the agreement itself. A lot of good sense and a lot of the spirit of co-operation will be required if the intent of the scheme is to be realized in practice. After all the signing of the agreement is merely an event that will make action possible. My reason for saying that, Mr. Chairman, is that we find it difficult in our province, where we have had a serious crop failure in the western parts for two years, to understand why we can come to no agreement with the federal government about any public works—the one that was tentatively agreed to has been cancelled by the government—and at the same time publicity is given to the discussion on the building of a subway for the Toronto Transportation Commission. Matters of that sort seem to us to make necessary the fullest possible co-operation in public investment. I feel also that I must point out again that we count on the Dominion pursuing an active program of public investment in socially useful projects not merely to take up the slack of unemployment but in order that there be less likelihood of a slack developing. I might instance the very valuable work of this nature done under P.F.R.A. which I hope may be extended with great vigour. In this connection I specifically urge that irrigation on the prairies is definitely a national matter and that the irrigation projects noted in our written brief should be proceeded with as a national public investment. Such an investment would go a long way in the direction of stabilizing not only the economy of the prairies but the economy of the entire nation. Such a development might well avert or soften many a national emergency resulting from extensive drought—an emergency which might well come this very year if present weather conditions in the west continue.

Constitutional Changes

And now may I say a few words regarding the constitution and its possible amendment. You will recollect, Mr. Chairman, that in our written submission we urged that certain amendments should be made to the British North America Act, not with the idea of destroying the federal principle but with the idea of making it workable so that it will not destroy itself, always keeping in mind that the only excuse for the existence of governmental agencies, federal or otherwise, is the satisfaction of human wants and needs.

Among our proposals was a suggestion that an amendment should be procured making it certain that legislative jurisdiction can be delegated, from the

dominion to a province, or vice versa. We are glad to note that the same suggestion is contained in the dominion proposals, and we are hopeful that the other provinces will agree. Such an amendment would introduce an element of flexibility into our constitution which is badly needed and would make co-operation among the various agencies of government much easier.

So far there has been little disposition to go further in the matter of constitutional amendment and yet it seemed evident in our discussions that all of us felt that the present situation is not satisfactory. Nor will it be satisfactory after an agreement based on the dominion proposals is effected. The dominion proposals are good and offer excellent prospect of a tentative solution. Of course most solutions are only tentative and I suggest that this one be recognized as tentative from the beginning. I suggest that during the currency of the agreement—and very early during its currency—we get right down to the problem of constitutional adjustment that the problem be approached not merely as a matter of clarification but as a matter of adjustment, so that in the case of wants that may best be satisfied by local action the necessary power be given to the provinces, including the necessary fiscal power; and so also that national powers and responsibilities may be adequate to the needs of a growing nation. And in making such adjustments we should guard against the possibility of a paralysis of action where action may be needed. Among the matters that should receive attention are marketing and labour problems. And I would wish to add that in our opinion the regulation of wages and the conditions of labour and the conciliation of labour disputes have become national in their implications and I hope fervently that it may not be necessary to wait three years before procuring an amendment giving legislative jurisdiction to the dominion parliament. The situation promises to be serious and in this as in certain other matters the dominion is being paralyzed under the present constitution, and this paralysis is not good for the people of Canada.

So, Mr. Chairman, the Province of Saskatchewan is prepared to conclude a tentative agreement on the basis of the proposals of the dominion, and may I say that I do not share the fears of the Premier of Ontario concerning the payment of subsidies by the dominion to the provinces. No doubt in an ideal society every governmental agency would have available sufficient funds with which to supply the services it felt to be desirable. But such an ideal is rarely if ever found and certainly is never likely to be found in a federation such as Canada where almost inevitably the taxable wealth will be largely concentrated in small areas. Now I want to give notice that I shall never cease to urge that in a country which calls itself a nation it should never be tolerated that the services—social, educational, health—enjoyed by the human beings in the less favored areas shall be less extensive than those enjoyed in those areas where wealth has been concentrated. In this I believe I have the support of the vast majority of Canadian people. How can this injustice be avoided without the payment of subsidies? I think I can give one answer to that question and it is this: it will be done by the dominion exercising her unlimited powers of taxation and supplying the services to the people directly. That is how you will get centralization. So instead of a system by which, in part, the dominion raises the money and the province spends it, you will have a system in which the dominion will raise the money and spend it too. And I suggest, therefore, that unless we want extreme centralization we had better make adequate provision for the financial stability of the provinces by subsidies or otherwise.

A good example of that is the children's allowances. Because the federal government had the financial power to do so it stepped in and dealt directly with the situation. Unless we want to leave the federal government no other recourse but to deal directly with individuals and municipalities it seems to me that the provinces must make arrangements whereby in receipt of subsidies proposed

they shall be able to carry out these services that are so essential. Therefore I support what the Premier of Manitoba said this morning, that the acceptance of these proposals rather than tending to weaken and destroy confederation will, in our opinion, strengthen the ties of confederation and make it possible for confederation to be an effective instrument for the welfare of the Canadian people.

In conclusion I wish to refer to one other matter. As a compromise the federal government has made two suggestions. The first is that in return for getting out of the gasoline tax field the federal government should withdraw its offer to assume 50 per cent of the cost of paying old age pensions to persons 65 to 69 years of age and who are in need. Let me say most emphatically that such an alternative is not acceptable to us. Even if the dominion discontinued its 3 cent a gallon tax on gasoline we are convinced that we could not realize sufficient from this source to enable us to care for those in need who belong to the 65 to 69 year group. In the first place I doubt that we could add 3 cents a gallon to the price of gasoline as a permanent feature of our economy. Furthermore in Saskatchewan gasoline used by the farmer on his farm has always been tax free; and this would mean that half of the tax now collected by the dominion from gasoline would not be available to us. For these reasons we have no desire to barter the gasoline tax field in exchange for the government's offer to pay 50 per cent of the cost of caring for our needy old people who are in the 65 to 69 age group.

The second alternative proposed by the Federal Government is that they shall vacate the amusement tax field but as compensation they suggest withdrawing their offer of a public health grant to the province. Here again we must refuse this compromise. In Saskatchewan the amusement tax field was given to the municipalities in lieu of the latter vacating the income tax field. We do not feel that the Provincial government can take from the municipalities this field which they have enjoyed for many years. Therefore we would prefer to have the health grant left as a part of the federal government's offer to the Provinces. And besides, we would like to feel that human beings will enjoy proper health services.

May I say a few words about the request of certain provinces that the Dominion get out of some of the minor tax fields I have mentioned. As far as Saskatchewan is concerned these tax fields yield very little revenue and some of them would bring us no revenue at all.

The pari-mutuel and stock transfer tax bring in no revenue at all in our province. Even the succession duties do not bring us a great deal of money. People who have money do not die in Saskatchewan unless they are taken by surprise. They prefer to die in the salubrious climate of Mr. Hart's province or in the atmosphere of dull respectability which they find in Ontario. I am not therefore interested in having the Dominion leave these tax fields exclusively to the Provinces. It is for that reason that I can make the appeal which I am about to make to the Federal government.

It seems to me that there are two reasons why the Dominion might give serious consideration to granting the provinces all or some of the tax fields asked for. In the first place these are very minor fields of taxation. In comparison with the tremendous amounts of money which are involved in the personal income and corporation taxes, the revenue from these minor tax fields is very small indeed. It seems to me that the surrender of these minor fields is a small price to pay for an agreement which can mean so much to the future of Canada.

There is a second reason why the Dominion might well reconsider this matter and that is that all the things they want to do in the matter of maintaining full employment and high national income can be done without having these tax fields.

I am stating, Mr. Chairman, that the whole purpose for which the federal government has asked these taxing powers is in order that they may maintain full employment and high national income. I am suggesting that the surrender of these minor taxes by themselves would in no way prevent or obstruct the federal government from carrying out the purpose for which it is asking these taxing powers.

With complete control of corporation taxes and income taxes, the Dominion can use taxation as an economic balance wheel without having access to the minor tax fields asked for by some of the provinces.

None of us here can expect to get all the things we think our provinces are entitled to. We have all had to give way from time to time in order to make an agreement possible. Since Saskatchewan is not asking for these taxes, I feel that I can very properly urge the Federal Government to make some concession to those provinces who are asking for these tax fields. It seems to me that, having found a basis of agreement on the two major taxes and succession duties, we ought not to let this conference be shipwrecked on matters which are after all unimportant in the light of the great issues which are here at stake.

I want to conclude by expressing the hope that out of this discussion we shall reach an agreement and say, that as far as the province of Saskatchewan is concerned, we are prepared to reach such an agreement here and now. There is no need personally, for me to say how dire the conclusions will be if we do not reach an agreement, not just for a single province but for the whole of Canada. I feel that the people of Canada are looking to this conference for leadership. Let us see to it that they do not look in vain.

Mr. MACKENZIE KING: We shall now hear from Mr. Manning, Premier of Alberta.

PROVINCE OF ALBERTA

Hon. ERNEST C. MANNING (Premier): Mr. Prime Minister and gentlemen. We, who sit around this conference table to-day, obviously are face to face with a very real and a very serious problem. We have now listened to the considered statements of the dominion government and of the eight provinces whose representatives already have spoken. We would not be realists if we did not admit that two inescapable conclusions have forced themselves upon all of us who have listened. The first conclusion is this, that after more than nine months of deliberations and discussions there are wide and serious differences of opinion which have yet to be reconciled. And the second conclusion I suggest is equally obvious, if we are to be honest with ourselves, that is that the success of this most important conference and of all that hinges thereupon, and I underscore that little word "all", the success of this conference and all that hinges thereon is hanging precariously in the balance.

Now, Mr. Prime Minister, under these circumstances as the last province to state its position, I feel an added sense of responsibility. If it is in my power to add sufficient weight of argument to tip these balances in favour of the best interests of Canada and of the twelve million Canadians whose welfare is at stake, let me assure you I desire above all else, to do so.

The discussions during the past nine months have surely made two things abundantly clear; first, that there can be no satisfactory and permanent solution to the problem of dominion-provincial relations until two fundamental issues are faced and dealt with successfully.

First, the respective fields of jurisdiction and responsibility as between the dominion and provincial governments must be redrawn and the boundaries of each must be clearly and definitely and unmistakably established. The

second equally obvious requisite is this: Each government must, at the same time, be guaranteed definite and unattachable sources of revenue under its exclusive jurisdiction and control, adequate to enable it to discharge fully its constitutional responsibilities.

I suggest, Mr. Chairman, that these two basic requisites will be acknowledged by all who are familiar with the nature of the problems confronting us in the field of dominion-provincial relations. Most of the problems which have brought us around this table have arisen out of the confused situation that has developed down the years with respect to the exact lines of demarcation as between the dominion's and the provinces' respective fields of jurisdiction and responsibility.

Take, for example, the question of jurisdiction with respect to taxation. It is a matter of record that the dominion has progressively entered more and more upon the tax fields, which, in previous years were occupied exclusively by the provinces. With what result? The provinces' financial independence has been progressively impaired. Not a single province in Canada to-day has any assurance of where that trend, if unchecked, ultimately will end. Consider the matter of responsibility with respect to social services. Here again, the lines of demarcation as between dominion and provincial responsibilities have become obscure. The dominion has, progressively, taken unto itself more and more responsibility for various social services, which in the past were regarded as matters of concern to the provinces alone. With what result? Again there has been a progressive centralization of administrative control with a corresponding removal of the rights of the people in each province to decide for themselves the nature of the social services they desire and then order of priority.

As a natural outcome, the provinces from time to time have been called upon to give over to the dominion government provincial fields of revenue in order to enable the dominion to pay for these social services which it has decided should be provided under federal supervision and control.

I suggest, Mr. Chairman, that it is obvious that any permanent solution to the problem of dominion-provincial relations demands that the respective fields of jurisdiction and responsibility as between the dominion and provincial governments must be re-defined and the boundaries clearly and definitely established.

I suggest that the importance of each and every government being guaranteed definite sources of revenue, under its own jurisdiction and control, adequate to discharge fully its constitutional responsibilities, is equally self evident. It has been pointed out on numerous occasions, during this conference, that financial independence is the very warp and woof of responsible democratic self-government. It is, therefore, absolutely necessary that government be assured that measure of financial independence, if we are to avoid a repetition of the confusion and unsatisfactory conditions which lack of such independence has produced in the past.

May I suggest, Mr. Prime Minister, and gentlemen, that the second thing which these discussions at this conference have made abundantly clear is that the dominion's present proposals do not meet either of these two basic requisites as a proper and permanent solution to our problem of dominion-provincial relations.

They embody no proposals for redefining the fields of jurisdiction and responsibility as between respective governments. In fact, they advance as an argument, for their acceptance, the fact that they do not disturb the status quo beyond the temporary circumstances which the agreement would impose. Obviously then, its expiration would leave the issue no less confused than it has been in the past and as it is to-day. It is equally clear to all who have

considered and discussed the dominion's proposals, that these proposals do not purport to guarantee each and every Canadian government a permanent, definite source of revenue under its own exclusive jurisdiction adequate to enable it to discharge fully its constitutional responsibilities. Rather, the proposals are predicated upon the provinces vacating, for the life of the proposed agreement, what have been, in the past, among their major sources of revenue, in return for various forms of financial compensation from the dominion government.

The discussions that have taken place have progressively emphasized the fact that the measure of financial compensation, is not to be based upon the amount that is necessary to enable the provinces to discharge fully their constitutional responsibilities and to finance an adequate program of post-war reconstruction and development; but rather it has been brought out that the limiting factor must be the portion of the overall amount of taxpayers' money that the dominion decides is available for distribution to the respective provincial governments throughout Canada. The arguments of the dominion government against any further increase in its financial compensation to the provinces have corroborated and underscored the argument that was advanced by the government of Alberta in its formal submission made to the first session of this conference in August of 1945. May I read two or three sentences from our submission at that time:—

Let us never forget that the mere reallocation and redistribution of the powers of government to extract public revenue from the pockets of Canadian business and the Canadian people does not, and cannot increase, by one red cent, the amount in those pockets that is available for extraction. It is definitely the dominion's responsibility to insure that the provinces have adequate revenue to enable them to discharge fully their constitutional responsibility and to meet their extensive post-war requirements; but the cold, hard facts must be faced that to do so on an adequate scale would require the dominion to turn over to the provinces, exclusively, some of those major fields of revenue, or, alternatively, to turn over such a large portion of its revenue from those sources, that the dominion government itself would be left with insufficient revenue to discharge its responsibility, when the scale of taxation is reduced to its normal peacetime level.

I suggest, Mr. Chairman, that the truth of that statement is more obvious today, after the discussions of the last nine months, than it was even at the time this formal submission was made in August, 1945; and I think it is safe to predict that it is a fact that will become increasingly more obvious, as time goes on. In our submission at that time, we added this statement: "The effective solution to our problems obviously requires a policy which goes far beyond the mere adjustment of our respective responsibilities, or the reallocation of our present inadequate sources of public revenue."

I am under no illusions, Mr. Chairman, that I could carry the judgment of this conference, at this stage, were I to argue for the immediate adoption of the revised fiscal policy which we then proceeded to elaborate upon in our submission; but I am equally confident that the adoption of a complete revised national fiscal policy ultimately will be forced by the steadily accumulating weight of circumstances. Leaving that issue to the indisputable judgment of time, let me briefly restate the three conclusions which I suggest must be obvious to this conference at the present time. First, there can be no permanent solution to the problem of dominion-provincial relations until the respective fields of jurisdiction and responsibility as between the dominion and provincial governments have been redrawn and the boundaries clearly and unmistakably defined, and until each government is guaranteed its own sources of revenue, under its own jurisdiction and control, adequate to enable it fully to discharge its consti-

tutional responsibilities. Second, it is equally obvious that the dominion's proposals do not meet either of those two basic requirements of a permanent solution. Third, we are forced at this stage to conclude, and I think properly so, that an agreement based on the dominion's present proposals must be considered only as a temporary, interim arrangement while a permanent solution that does recognize these basic requirements is being worked out.

There are, in my opinion, at least three very important reasons why such an interim arrangement should be entered into at this stage and without further delay. First, as the magnitude and the extreme importance of the issues involved in working out a satisfactory permanent solution embodying the two basic requisites I have enumerated. In effect it will amount to the re-writing of Confederation, and that is a far too important matter for hurried action. The present wartime tax agreements will have expired long before it could possibly be completed.

In the second place, we are at the present time in the midst of an unsettled period of transition from war to peace; a period in which inevitable adjustment and realignment will take place. That, Mr. Prime Minister, is not an opportune time in which to make important changes of a far-reaching and permanent nature.

In the third place I would like to submit to the conference that the most important reason, in my opinion, for concluding an interim agreement without further delay is to be found in the very serious consequences of failure to conclude any agreement at this time. It would mean, as has been argued already, the near if not the complete bankruptcy of at least some of the provinces who would be faced with the impossibility of collecting, by means of dual taxation, sufficient revenues to maintain their present public services, to say nothing about providing for post-war development. Under such circumstances they would shortly be forced into the position of beggars at the door of the dominion treasury. It is obvious to everyone sitting around this table that a situation of that kind is certainly not conducive to harmonious dominion-provincial relations and to the providing of a proper environment in which to work out a satisfactory and permanent solution to our problems.

The affect of no agreement upon post-war reconstruction and development is equally as serious and will inevitably mean the curtailment of provincial expenditure to a marked degree on the part of many provinces: Canadian business generally will be affected even more seriously. I think that Canadian business has proven that, given a known set of facts, a known set of circumstances, it has an amazing ability to adapt itself to these circumstances and to overcome the difficulties in its path. But, Mr. Chairman, there is no element more damaging than uncertainty; and I submit that, if no agreement is reached and business, generally, throughout this country in this critical post-war period is left with no known set of facts or circumstances, then we, as a conference are responsible for placing in the way of Canadian business barriers that it will find extremely difficult to overcome.

There is one other factor which, in my judgment, is particularly serious, should we fail to reach an agreement at all, and that is the inevitable effect upon public morale generally. We are all cognizant of the present public attitude towards these deliberations. I think I am correct in saying that the public of Canada is perplexed and impatient at the length of time this matter has been under consideration without any finality being reached. It is my earnest opinion in the light of that situation, that failure to arrive at any agreement will be a most serious blow to public confidence in all governments, and may well produce attitudes of disillusionment and frustration, bitterness and hopelessness, the consequences of which will be most serious during these crucial post-war years. The public properly regards a conference of this nature as a yardstick by which to measure the ability and capacity of men and governments to

reconcile viewpoints and to work together and co-operate together for the good and welfare of all. Even while we are gathered here, representatives of fifty-one nations of this world are meeting in assembly. Millions of people throughout the world are pinning their hopes on the ability of those representatives to reconcile conflicting viewpoints around a council table and to ensure the peace and security of mankind. I declare to you gentlemen, if we, as representatives of ten Canadian governments, all members of the same Canadian family having in common all of the interests that are peculiar to our own country, if we cannot reconcile our differences of opinion and conclude at least a satisfactory, interim agreement, what hope can mankind have that fifty-one nations separated by much wider and more conflicting viewpoints than are involved in our deliberations, separated by all the barriers and differences of race, nationality, and conflicting philosophies of life—or say if we cannot reconcile our conflicting opinions sufficiently to reach an agreement, what hope can mankind place in this method of solving problems, when it is magnified to the international scale.

I therefore maintain that the seriousness of the consequences of failure can hardly be measured. Only last week Winston Churchill described this world as being very ill after the stress and strain of six years of war. Under such circumstances the failure of this conference to reach agreement would in this country result in a public reaction that might well impose upon the ties of Confederation a strain, perhaps, beyond its ability to bear. It could result in the development of conditions which would be seized upon and exploited by every enemy of our Canadian democratic way of life and by every “ism”, that preys upon the distress and confusion of men, with results that would render next to impossible the task of working out an ultimate satisfactory permanent solution.

While sitting around this table that ultimate position that we all desire has been ably outlined and emphasized throughout this conference. It was emphasized yesterday, particularly by the premiers of the two largest provinces of Canada. A position in which all the provinces of Canada will attain to that status of full independence within their respective fields of jurisdiction is the ultimate goal of us all. Alberta is the youngest member of the Canadian family, but it takes second place to none in the importance which it attaches to provincial rights, to fiscal independence, and to all other factors essential to responsible self-government. Our position in respect to these matters is well known from one end of this country to the other. These, Mr. Chairman, are the reasons why I made so bold as to claim to this conference that it is absolutely necessary that we conclude, at this stage, a temporary interim agreement in order to prevent the complete dislocation of our post-war economy, and make possible the success of the efforts we insist must be made to work out a satisfactory permanent solution for the future.

What then should be the nature of this temporary interim agreement? Alberta's appraisal of the dominion's proposals and our considered opinion, as to the modifications which should be made, was set out in our submission to the co-ordinating committee on November 26 of last year. May I say, for the benefit of the record, that that submission still represents our considered views. Nevertheless, for the purpose of facilitating the measure of agreement necessary to conclude a temporary interim agreement, and for the reasons I have enumerated, we are prepared to recommend to our legislature that, for the proposed three-year period Alberta vacate the fields of income tax, corporation tax and succession duties, in return for the annual per capita grants set out in the dominion's proposals, as amended together with the other dominion financial compensation as summarized in the statement by the Prime Minister given to this conference yesterday morning.

At this point I should like to make our position clear with respect to fiscal need grants. We are not opposed to the principle of fiscal need grants

if used only as a supplement to the fixed and unconditional per capita grants proposed, such as for the purpose of providing for drought conditions or other similar emergencies. But I do want to make it clear that so far as the government of Alberta is concerned we are not prepared to accept a system of fiscal need grants as an alternative to the fixed unconditional per capita grants proposed, for the following reasons. In the first place, such an arrangement hands over to a board or commission, important decisions on matters which properly are the right and responsibility of governments alone. For example, under a system of fiscal need grants, if that were the sole basis of fiscal compensation for the provinces, a commission or board, or some body of that kind responsible to no electorate, would be given the authority to determine what is a proper standard of public services; to determine the extent of the tax burden that a province should impose upon its people before it was eligible for a fiscal need grant; and to determine the purposes for which funds thus made available should be spent.

Mr. Chairman, we are not quarrelling in any way with the opinions of other provinces that favour a set-up of that kind. But it is our considered opinion that decisions in matters such as those I have mentioned, which under a system of fiscal need grants must of necessity be made by some commission or board, are the right and responsibility of the elected representatives of the people, and of no other body.

In the second place a system of fiscal need grants tends to penalize enterprise on the part of any province. If by conserving on some phases of its economy and developing others, say for example, in the field of social services, it attains in that field a standard higher than the average across Canada, then it at once presents the commission to which it goes to ask for fiscal aid with a sound argument for saying, "Your standard of service already is higher than the Canadian average, and therefore you are not in need of fiscal aid."

May I now refer to three matters with respect to which we feel the dominion should be prepared to modify further its present position. In the first place we do feel that the dominion should be prepared to vacate those fields of direct taxation which it entered during the war, and which, prior to the war, were occupied exclusively by the provinces.

I wish to confine my remarks primarily to the field of the tax on gasoline. In so far as our province is concerned the matter of the federal tax on gasoline is serious, in the first place, because it represents an additional cost on primary production. Ours is an agricultural province and our farmers are large consumers of gasoline in their farming operations. While the province, in common with some of the other provinces, exempts gasoline used by farmers from provincial gasoline taxes, the dominion taxes, of course, are paid by them the same as by all other consumers. We are equally concerned because of the effect under the arrangement proposed which dominion occupancy of this field of taxation has upon the financial position of the province. Let us be clear on the fact that the proposed financial compensation under the amended dominion proposals would not be more than sufficient to meet the current post-war needs of our province. It will not be adequate to provide the province with sufficient funds to enable it to take full advantage of the various other forms of dominion financial aid which are predicated upon the province being able to put up a corresponding or some proportionate amount of money in order to take advantage of dominion assistance.

It certainly will not be adequate to take care of the necessary capital expenditures which the province will be called upon to make during the post-war years.

There is also the matter of unemployment costs. It is true that the dominion undertakes to assume certain responsibilities for the cost of such unemployment as may develop; but the dominion's undertaking to assume that respon-

sibility is qualified by four things. First, it excludes self-employed, which, as has already been argued, is a very serious matter in so far as an agricultural province is concerned. Second, the dominion responsibility is limited by the two-year proviso under which, if a man should be unemployed for a period exceeding two years, beyond the expiration of his unemployment benefits, he then becomes the full responsibility of the province. In the third place, the amount of the dominion's unemployment assistance is limited to approximately 85 per cent of the amount an individual would have received under unemployment insurance, which amounts to approximately \$12.25 a week.

I submit, Mr. Chairman, that if unemployment should develop on any substantial scale it would very soon become necessary for the provinces and municipalities to supplement the dominion aid, if that aid is restricted in the case of unemployed employables to an amount not exceeding approximately \$12.25 per week to the head of the family, with no additional provision made so far as his wife is concerned.

In the fourth place the dominion responsibility for unemployment is further modified by the dominion's right to determine when gainful employment is available. In the case of local unemployment, which might not be particularly serious from the national standpoint, the exercise of that right by the dominion could impose a very heavy burden on provincial and municipal governments. Suppose the dominion decided that because there was some employment available in some other part of the country these people either would have to go to that area to obtain that employment, or if they did not go, would not be eligible for the dominion unemployment benefits. Circumstances would perhaps make it impracticable for them to go where the employment is, and would thereby impose upon the provinces and municipalities who would then become responsible for their welfare, substantial burdens of unemployment assistance.

I submit that these are reasons why the provinces should be assured the exclusive use of certain fields of taxation which, if necessary, they could further expand to take care of such increased expenditures as they will be called upon to make and, particularly in so far as the gasoline tax is concerned, to enable them to take care of capital expenditures, especially for road construction which will be necessary on an extensive scale.

If it should become necessary for a province to borrow money for highway construction under the proposed agreement we must not lose sight of the fact that the provinces would have only such fields of revenue as liquor profits, car licences and the already overloaded gasoline tax field, with which to service the debt it might have to incur for capital expenditures.

I submit that does not put the provinces in a very happy position to get satisfactory arrangements for obtaining funds for capital expenditures. I wish to suggest one possible solution if the dominion persists in its position that it cannot vacate the field of gasoline tax, namely, either for the dominion to take those revenues which it receives from the gasoline tax, amounting to approximately \$30,000,000, and earmark them for distribution to the provinces for the purpose of highway construction; or as an alternative the dominion should return to the provinces the exclusive use of the field of gasoline tax in lieu of the grants that it proposes to make for the purposes of highway construction.

I suggest further that the dominion should be prepared to agree to give the provinces the constitutional right to impose the retail turnover tax that has been discussed but on a definite and permanent basis. The temporary arrangement, as set out in the amended proposals is, I suggest, impractical in a matter of this kind. While that is a field of taxation that could give the provinces a substantial amount of money, I think it is obvious that it would be impractical for a province to go into a field of taxation if it knew that its power to impose such a tax was restricted to a period not exceeding three years.

I submit that the amendment requested in this regard does not involve any cost to the dominion government. It would merely be providing the provinces, which wished to take advantage of it, with a simplified method of collecting a sales tax which they already have the right to impose, as a direct ultimate consumer tax.

In the third place I would submit that the dominion government should be prepared to make a modification in its proposed contributions towards the cost of various social services; and that the proposed contributions should be made in the form of unconditional supplementary grants for social services, leaving the provinces free to decide the nature of the services provided and the order of their priority. Here again, Mr. Chairman, there would be no additional cost in so far as the dominion treasury is concerned. It would simply be a matter of the dominion saying to the provinces: "This is the amount that we are prepared to provide to your province for the various social services set out in our proposals. We will instead provide this money as a supplementary grant for social services, and leave it to the individual provinces to decide the particular services for which that money should be expended." If one province wished to increase substantially its payments toward the cost of education, why should it not do so? If any province wished to substantially increase the money that it spent on public health why should it have to be poured into the same mould as others and lose its individual freedom of thought to develop the particular social service which, in the opinion of the people of that province, are of perhaps greater importance than some other service?

In conclusion let me briefly summarize our position. For the purpose of concluding a temporary interim agreement without further delay we are prepared to accede to the dominion's major request to vacate for a three-year period the fields of personal income tax, corporation tax and succession duties in return for the unconditional annual per capita grants set out in the dominion proposals as amended, together with the additional dominion financial compensation as summarized in the Prime Minister's statement to this conference yesterday morning.

We feel that the dominion government, in a like spirit of compromise and in the best interests of all concerned, should be willing and prepared to modify its present position at least to the limited extent that I have indicated.

We insist that steps be initiated by this conference to assure that there will be no undue delay in working out a satisfactory permanent solution under which the respective fields of jurisdiction and responsibility as between the dominion and provincial governments will be redrawn in the light of modern circumstances, and the boundaries of each clearly defined and unmistakably settled, and that each government will be guaranteed definite and unattachable sources of revenue under its own exclusive jurisdiction and control adequate to enable it to discharge fully its constitutional responsibility.

We urge upon each and every member of this conference the extreme importance of concluding an interim arrangement without further delay, and the serious and far-reaching consequences of failure to reach such an agreement.

If we are not statesmen enough to surmount the obstacles which prevent agreement and conclude successfully this necessary preliminary step, let us not delude ourselves into thinking that we can succeed in the far bigger and more important task of rewriting confederation and providing generations to come with a satisfactory and enduring solution to the complex problems which have brought us around this table today. May I close with a brief paragraph from my statement to the first session of this conference:

"When Canada was faced with war, all sections of the nation, irrespective of differences, united in a common effort for victory. Canada's peace effort is, in every respect, as vital to Canadians in its outcome, for what will it profit this nation to have achieved victory in the military field if the calamity that

followed the last war is repeated and the people suffer a crushing defeat through failure to achieve the kind of peace for which they fought. Canadians can be mobilized for peace comparable with their achievements in war under conditions which will make for a closely knit national effort in which the welfare of each will be the concern of all. To give the necessary leadership to that end is Canada's challenge to every representative gathered for this conference."

Mr. MACKENZIE KING: Gentlemen, in addressing the conference the premiers of the several provinces have had before them the proposals of the dominion, some of which they have criticized and some of which they have approved. I assume that it will be agreed the Minister of Finance of the dominion government should have the opportunity to reply to the addresses that have been made by the premiers of the several provinces, and he may have the right of precedence for the moment.

Mr. DUPLESSIS: Why not sit tonight?

Mr. MACKENZIE KING: I think some present have engagements for this evening. No arrangements have been made for sittings this evening. We shall adjourn until to-morrow morning at 10.30.

The Conference adjourned at 5.50 p.m. to meet again on Wednesday, May 1, at 10.30 a.m.

PLENARY SESSION — No. 7



DOMINION-PROVINCIAL CONFERENCE

Wednesday, May 1, 1946

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

DOMINION-PROVINCIAL CONFERENCE

SENATE CHAMBER, OTTAWA, May 1, 1946.

REPORT OF PROCEEDINGS

The Dominion-Provincial Conference met in the Senate Chamber, at 10.30 a.m., the Prime Minister, the Right Hon. W. L. Mackenzie King, presiding.

STATEMENT BY RIGHT HON. J. L. ILSLEY

Right Hon. J. L. ILSLEY (Minister of Finance): Mr. Chairman and Gentlemen, on Monday morning last the Prime Minister presented to the Conference in plenary session the revised and modified proposals of the Dominion government. These proposals, of course, covered a wide field, and it was almost impossible to compress them into a narrow compass, but an attempt was made to do that so that they could be presented in summary and easily understandable form. It was made clear that the proposals of the Dominion government were inter-related and inter-dependent, that the program put forward by the Dominion was an integrated program and should be considered in all its parts.

Since the Prime Minister made his speech we have listened to a number of very able speeches by the Premiers of the various provinces, and it now becomes my duty, perhaps I should say my privilege, to reply to some of those speeches and to consider some of the suggestions made on behalf of the provinces. I would like to ask for indulgence on this occasion because it has been necessary for me to be here through all the speeches and concentrate as best I could on them, and there has not been very much time in which to prepare, as I should like to have prepared, a comprehensive reply.

It will not be possible for me to deal with all the points that have been raised by all the Premiers, but I hope to deal with the important ones, and I hope to present at the conclusion of my remarks a picture of the situation so far as this conference is concerned as it exists at the present time.

I need not remind the Conference that the Dominion's original proposals were presented in August last, and they were not presented in a spirit of take-them-or-leave-them, but we undertook to discuss them and to give consideration to any modifications that might be suggested. A great many modifications have been suggested, and a great many modifications have been made. I should like to make that point clear because I do not want anyone to think that the Dominion has not been willing to change its position in certain particulars if there seemed to be good reason for that position to be changed. Some of the modifications, and I do not pretend that this is a complete list of all the modifications made since the original proposals, are these:

1. Upon hearing the representations from the provinces, most of whom considered that the minimum payments which were guaranteed were too low, the Dominion agreed to raise the minimum. Some point has been made of the fact that the actual amount payable to the provinces in a year such as 1947 will likely be is not \$3 more per capita than it would have been under our original proposals. That is true, but that fact arises from the nature of the discussions in the Co-ordinating Committee. I want to be careful not to repeat anything that was said in the Co-ordinating Committee, but what did go on in the Co-ordinating Committee has been referred to in general terms by

several premiers and therefore I think I may say that the criticisms of the Dominion's proposals on the ground of the inadequacy of the payments to the provinces were largely concentrated upon the minimum.

The provinces very naturally took the view that they could only count with certainty in future years upon that minimum and dealt with the proposals very largely on that basis. In order to meet the provinces we agreed to raise that minimum from \$12 per capita to \$15 per capita, with certain other modifications.

2. We agreed also that the provinces might take either the actual population of 1941 or the estimated population of 1942 at their option in calculating the amount of the guaranteed minimum payments.

3. We also modified our proposals in the Co-ordinating Committee last week in such a way as to add to the annual payments to be made to the provinces one half the corporation income tax collected by the Dominion on certain companies selling electricity, gas and steam. We agreed, although our original proposals stressed the great importance, and it is still regarded as of great importance that the Dominion should have exclusive occupancy of the succession duty field—we agreed that any province might remain in the succession duty field and that taxpayers would be permitted a deduction of the tax paid to that province from the tax payable to the Dominion, with a corresponding reduction in the Dominion payments.

4. We agreed that the Dominion would not increase special excise taxes on gasoline, amusements or pari-mutuel betting except in the case of a national emergency. That was in response to a criticism by the provinces that the Dominion might not only continue in these fields but might increase the taxes they were collecting in these fields.

5. We also agreed that the Dominion would not enter the fields of real estate and automobile licence fee taxation, now exclusively occupied by the provinces.

A point has been made of the inadequacy and unimportance of the real estate taxation field and of the automobile licence taxation field. The only reason that these fields were mentioned, and perhaps from some points of view it was undesirable even to mention them at all, was that they were the only fields which the provinces mentioned as fields which they had in mind that we might possibly occupy in the future. As we had not the remotest intention of doing so, as they would be unnatural fields for the Dominion to seek to enter to any degree, we said yes, we were quite willing to give an undertaking that the Dominion would not impose taxes in the real estate taxation field or in the automobile licence taxation field now exclusively occupied by the provinces.

I shall point out a little later in dealing with the speeches of some of the premiers that never since Confederation has any province had any field of taxation exclusively, that the British North America Act provides that the provinces are restricted to direct taxation but that the Dominion may impose direct or indirect taxation. It would be a complete misunderstanding of the facts for anyone to think that we were invading all fields that we did not have the right to occupy except the fields of real estate and automobile licence taxation.

6. We agreed, under the delegation of powers in our original proposals, that the provinces may levy a retail sales tax, and as I shall point out later, that gives the provinces a flexible and possibly expanding field in which they can use their own judgment as to how high the tax should be, a field which gives them the opportunity of increasing their revenue on their own responsibility to a very substantial extent.

7. We offered to withdraw from the fields of certain special excise taxes if the provinces could agree on a financial equivalent to make good the cost of such action to the dominion.

8. We also included in our offer an increase in the health grants.

I do not suggest that this list is complete, but I think it is only fair to the Dominion to place it on the record to show that there has been no disposition on the part of the Dominion to be stubborn or unyielding or uncompromising in dealing with the requests of the provinces. We have considered every one that was brought forward with an open mind, and if we could not meet the requests of the provinces we gave our reasons why we felt we could not meet them.

The modifications that I have mentioned increased the cost of the original proposals of the Dominion government very considerably, and it is a question how far the dominion should in the light of its responsibility agree to incur further costs for the purpose of obtaining an agreement.

We came to the conclusion after checking up the total cost of the enormous commitments that we are undertaking under these proposals and the enormous costs of our ordinary commitments that we could not, having in mind our responsibility to the taxpayers who pay taxes to us—we came to the conclusion last week and I so stated in the Co-ordinating Committee, that we could not expand the proposals of the dominion any further so far as cost is concerned. And so that the Conference will not think and the public will not think that that is an unreasonable position to take I want to refer briefly first to the cost of the commitments that the government is making in these proposals.

I cannot give a round total because many of the items are of such a kind that the cost cannot be estimated but I would point out that the guaranteed minimum payment to the provinces is now \$181,400,000, and that the presently estimated payment for the year 1947 amounts to \$198,200,000.

We have proposed in our proposals to assume the cost of unemployment assistance to the extent of 85 per cent of the unemployment insurance benefits. That commitment is an open-ended one. If the Dominion government finds itself in this position, that a large volume of unemployment develops in the country, the obligation assumed under that undertaking may be an enormous one. It is one of the features of our proposals which naturally gives me very much concern as Minister of Finance.

We also agreed to institute a contributory old-age pension system which would be part of the social security scheme to which direct contributions would be made, an old age pension scheme under which pensions would be paid without a means test to those over seventy. For many years there has been great complaint about the means test and arguments have been advanced why there should not be a means test. In many countries there is no means test, and our policy, as stated two or three years ago and as frequently restated, has been to institute a contributory system of old age pensions which will be payable without a means test. The cost of that old age pension alone will be approximately \$200,000,000.

We agreed also that, with respect to pensions payable to persons between the ages of 65 and 69, we would assume 50 per cent of the cost of old age pensions to those in this group on a means test if any of the provinces wished to lower the age to 65 and to raise the pension to \$30 a month. The cost of that to the dominion will be from \$17,000,000 to \$20,000,000 per year for the means test pensions between 65 and 69.

In regard to the health grants the original proposals were that these health grants would come to a total of \$12,000,000 or \$13,000,000, and we agreed to offer these health grants to the provinces at a cost of between \$13,000,000 and \$19,000,000 a year.

We agreed to assume 60 per cent of the cost of health insurance under the terms set out in the dominion's proposals. My statement of these matters may

not be precisely accurate, with all the qualifications, but one thing we do know, that if health insurance is adopted by all the provinces our commitment will run to a total cost to the dominion of something like \$150,000,000 a year.

We agreed to provide Planning Grants for public investment projects. I cannot state the total cost of that but it is substantial.

We agreed to provide Timing Grants for public investment projects. The basis of that was originally stated but is one of the matters which I presume will still be under discussion if the Conference proceeds. That was for the purpose of providing that public investment projects will not be proceeded with so far as the dominion was concerned at times when they would be undesirable rather than desirable as a means of providing employment.

The Dominion in these proposals enunciated certain public investment programs, having in mind that such programs might under certain conditions become necessary if we were confronted with the possibility of widespread unemployment.

We agreed also to contribute on a joint basis to certain Dominion-Provincial programmes. The cost of this cannot be estimated with any accuracy either because, like the Dominion public investment programmes, they depend upon the conditions which developed so far as unemployment is concerned.

Anyone looking at that list of commitments which the government has made must realize that we are assuming a very heavy responsibility to provide the money, and the money will have to be raised by Dominion taxation.

But of course that is not all. We have our normal obligations, obligations which we would have whether there had been any proposals to the provinces or not.

The gross carrying charges on the national debt this year are \$481,000,000. Of necessity that debt was greatly increased during the war with the result that we have these heavy carrying charges. The appropriation for veterans' care, pension, gratuities, reestablishment credits and so forth for the current fiscal year is about \$620,000,000, a vast sum, a sum that will be progressively reduced as the years go by but not abruptly reduced, a sum which makes it necessary for us to impose taxation on a pretty high scale.

In order to provide markets and employment for the Canadian people we have undertaken, to make loans and have made loans to foreign countries. The largest loan, of course, is to the United Kingdom, amounting to \$1,250 millions, an amount which will have to be raised over the next two or three years, and the repayment of which is spread over the next fifty-five years. In addition to the loans to the United Kingdom there are the export credits to other countries, provision for which has been made by Parliament to the amount of \$750 millions. These are undertaken in order to make sure that our export trade, upon which the employment and prosperity of so many Canadians depend, does not suffer.

Then we have to maintain our army, navy and air force. For the present year the appropriation for the army, navy and air force is just under \$500 millions. That, of course, will drop off but it will not disappear by any means. When a permanent army, a permanent navy and a permanent air force are established it is likely that the amount required for these will be in the neighbourhood of \$250 millions a year as a permanent charge upon the revenues of the Dominion of Canada. Therefore taking into account the cost of the commitments which we are prepared to undertake under the offer that we are making, and taking into account also the normal charges of the Dominion government we realize that we are going to have an extremely difficult budgetary problem in the future. I have given a great deal of attention to that, and have tried to look ahead and see what the budgets will be for coming years. As a result of that I came to the conclusion that we must not go any farther in costs to the Dominion

government than we have offered to go at the present time, and the decision to place a limit on the basis of cost was, for the reasons I have given, not an unreasonable decision. It was the only responsible decision that the government of Canada could possibly make.

I want to place these facts before the conference because there has been a suggestion that certain amounts have been in dispute here. We have been urged to vacate certain tax fields, without compensation for those fields. It has been said: "What is \$60 millions? What is \$75 millions? Well, we cannot be indifferent to \$75 millions. We cannot be indifferent to \$60 millions, and certainly we cannot be indifferent to \$125 millions or \$150 millions, which is the minimum cost of certain proposals that have been made to this conference, as I shall show in a few minutes.

It has been said that during the year ended March 31, 1945, we collected from what has been described as the great taxation fields, corporation and income tax fields, a billion and a half dollars. Therefore it is asked, "what is \$75 millions; what is \$60 millions compared with a billion and a half?" It has been said: "You have the great taxation fields; you have your billion and a half; why do you care about \$60 or \$75 millions?" I want to point out that a billion and a half is the figure representing corporation taxes, excess profits taxes and the income tax collected for the year ended March 31, 1945. The figure is \$1,538 millions. But of this about \$140 millions is refundable, which leaves about \$1,400 millions as the real taxation.

I wish to point out also that in the budget presented in the fall of 1945 reductions were made in the excess profits tax and the personal income tax. The estimated reduction in the excess profits tax was \$95 million. The estimated reduction in the personal income tax was \$115 millions, making an estimated reduction in these taxes of \$210 millions. This leaves something like \$1,200 millions which would be realized if national income continued at the levels of 1944-1945, and if there were no changes in the rates of taxation or conditions of liability, no changes in the exemptions, for example, or other changes prejudicial to the revenues in respect of these tax fields.

But I think it is pretty well understood that the excess profits tax is not a continuing feature of the taxation system of this country any more than it is a continuing feature of the taxation system of any other country, and that it must go before long. I think it is pretty well understood also that the personal income taxes must be reduced below the level at which they stand at the present time; therefore the amount recoverable from these great fields in the future is not a billion and a half, it is a very much smaller sum than \$1,500 millions. The amount that we shall recover or hope to recover from those fields, while it has been estimated, is such that we must be most careful not to give up other sources of revenue, certainly without completely adequate compensation.

The suggestion to the provinces is that they continue to remain out of certain fields for the period of the three-year agreement, but in their case there has been compensation which we regard as adequate compensation. The same principle must apply to us in so far as our present taxation is concerned. For this payment of about \$200 millions to the provinces we counted on having the use of certain tax fields.

For the sake of argument let us assume the value of these tax fields is \$60 millions. It does not make any difference what tax field I am talking about now. Let us say the value is \$60 millions. In substance that means that over \$140 millions has to be raised from income and corporation taxpayers, because the other forms of taxation are pretty rigid. If we were to increase the amount of cost to the government by that \$60 millions it would just simply mean that we would have to dip into the pockets of the income taxpayers of Canada for that additional \$60 millions. I am not prepared to put myself in the position to do that, and I do not think the tax paying public of Canada would want the Dominion government to do it.

The proposals that have been made by some of the provinces do not involve an additional cost to the Dominion of \$60 millions; they involve a cost to the Dominion of a very much greater sum than that. This brings me to the Ontario proposals. At the moment I am not prepared to go through every phase of the Ontario proposals and deal with them comprehensively, but I want to point out that the additional cost of the Ontario proposals can be divided into two parts. The first is the cost, apart from the X formula, and the second is the additional costs that would be imposed upon the dominion as a result of the X-formula. I can estimate one; of course I cannot estimate the other. The proposal is that we go out of the fields of succession duties altogether. As compared with our proposal that would mean a loss in revenue to the dominion of at least \$50 millions. I am not talking about the revenue that the Dominion government gets from succession duties at the present time. Our proposal is that we occupy the succession duty field exclusively, and if we did, at present rates the amount collected would be about \$50 millions. The proposal is that we leave that \$50 millions alone; that we go out. Therefore the cost of that proposal, as compared with our proposals would be \$50 millions.

It is proposed that we go out of the gasoline tax field, a field from which we derive a revenue of \$30 millions at the present time. It is proposed that we go out of the amusement tax field, a field from which we derive a revenue of \$14 millions. In all probability these are expanding fields, rising fields. The revenue from these fields will likely be greater in the future than they have in the past, but I am just taking the past. It is proposed that we go out of the pari mutuel field which gives us \$2 millions, also the security transfer cost which gives us \$1 million. It is proposed that we go out of the sales tax on electricity, which gives us \$5 million. When these are added up it gives us a figure of \$102 millions which we are asked to forego, and that amount is rising, as I said before, because some of these fields are expanding. That is the cost to the government of Canada on the revenue side. Let us take the expenditures side. It is requested that we provide foreign exchange to the provinces for certain things. It is a little difficult to give a quick estimate of the cost to the dominion of that proposal but we placed an estimate on it of \$7 millions in a normal year.

It is proposed that we do not include statutory subsidies as part of the payments to the provinces, but that we make the payments to the provinces, that is the \$198 millions that are referred to for the year 1947, as an addition to the statutory subsidies. The amount of the statutory subsidies is \$17 millions. Therefore if these two items are added to the revenue loss which is suggested we should take, the amount is \$126 millions. As I have said before \$126 millions is not a figure that we can disregard, having in mind our requirements.

Then it is suggested in the Ontario brief that we assume the full cost of old age pensions. If the age is to be lowered to sixty-five, and it must be borne in mind that the majority of the provinces of Canada have requested that the age be lowered to sixty-five and that there is a strong demand that the old age pension be raised from \$25 to \$30, then the assumption by the Dominion Government of the cost of old age pensions down to sixty-five means an additional charge on the Dominion revenue of an uncertain amount. If we have no means test in that field—and that has been suggested by some of the Premiers—the additional cost to the Dominion would be \$115 millions. I do not know whether it is practicable for the Dominion government to apply a means test. It has even been suggested at times that it would not be constitutional for us to apply a means test, and certainly we have always regarded it as administratively impracticable. Therefore, if we were to go down to sixty-five without a means test it would mean another \$115 millions. If a means test could be applied then the cost is very much less than that. The additional cost, as compared with our proposal, as I have said, is from \$17 to \$20 millions.

Then the Ontario proposals suggest—

Mr. GARSON: The additional cost of \$17 to \$20 millions is in addition to your proposal?

Mr. ILSLEY: Yes; it is the assumption of the provinces' share.

Mr. GARSON: Yes.

Mr. ILSLEY: The provinces' share as outlined in our proposals.

Then there is the question of the additional cost of unemployment assistance. In respect to unemployment assistance our offer was a definite one, as it had to be. It was limited to eighty-five per cent of the unemployment insurance benefits. It has been urged by some of the provinces that there may be localities and there may be situations in which that will not be adequate, and will have to be supplemented by municipal or provincial authorities. I am not prepared to admit that fact at the moment; but if it is true then the assumption by the Dominion of an open-ended cost of unemployment assistance will run into an unknown sum. That is the situation with which we are confronted when we consider the Ontario proposals, and that is altogether apart from the effect of the algebraical formula which was presented by the province of Ontario.

Now I am not in a position to assess the cost of that formula. All I know is that the formula as compared with the Dominion formula is more costly to the Dominion in several respects, and less costly to the provinces, due to the fact that different years are taken and different years for minimums are taken and so on. As I said, I am not in a position to deal with that formula here at all, because the all-important thing is to know what "X" is. Our formula is an arithmetical formula. The Ontario formula is an algebraical one. I know what I am talking about when I am talking about \$15; I do not know what I am talking about when I am talking about "X"; and therefore I am not in a position to deal with or analyze the effect of that formula. It is said in the Ontario brief that the figure of "X" can be very easily arrived at. I quote from the Ontario brief:—

The actual dollar payment to be substituted for "X" can only be settled accurately when there is agreement in principle as to what tax fields are to belong to the respective governments, what further considerations are to be balanced against such allocation of taxes, and what administrative responsibilities the governments are to assume. When agreement is reached in principle on these points, the substitution of a definite dollar value for "X" becomes a relatively simple problem in arithmetic.

But I want to point out that the province of Ontario has made proposals and has a policy so far as this conference is concerned on all these points; that is, what tax fields are to belong to the respective governments, what further considerations are to be balanced against such allocation of taxes, and what administrative responsibilities the governments are to assume. Therefore the province of Ontario, on the basis of their conference policy, on the basis of their proposals, were in a position or should be in a position to place a dollar value on "X", and if a dollar value were placed on "X" I would be in a position to consider and discuss it intelligently, which I am not in a position to do at the present time.

Another feature of the Ontario brief is the general principle that all double taxation should be eliminated. We have never taken the position that all double taxation should be eliminated. It is an appealing thing and sounds reasonable on its face, but it represents an extreme position and an impractical position. If it were adhered to, if the principle were adhered to in its entirety, we would be obliged to repeal the sales tax. As a matter of fact we are being

asked to repeal the sales tax on electricity on the ground that it is double taxation; and if that principle were adopted there, the application of this principle all along the line would mean that we would repeal the whole sales tax, one of our greatest sources of revenue. If the principle were adhered to in its entirety we would be obliged to repeal the sales tax and perhaps the customs duties on commodities on which the provinces have a direct tax. The great field of double taxation is liquor, but the suggestion that either the Dominion or the provinces should step out of this field as a source of revenue shows the untenability of attempting to lay down and apply in its entirety the principle that all double taxation should be abolished. There are some tax fields where duplication may be an inconvenience or a nuisance but where it has no real economic significance. Examples of this are pari-mutuel bets, amusements, liquor, security transfers. But there are fields of a different character altogether where elimination of duplication is of absolutely first-class importance. Two of the most important of these fields are the fields of income and corporation taxes.

There are three important reasons why the Dominion alone should levy taxes on incomes and corporate profits, and these do not apply with anything like the same force in the case of taxes such as those on gasoline and amusements. There are other incidental advantages and conveniences, of course, in the Dominion occupying these fields alone: the taxpayers should not be annoyed and aggravated by having to pay two separate taxes, by having to understand two or more laws, and by filing two or more complicated returns rather than one. I am speaking now of the income and corporation taxes. The public should know clearly where the responsibility lies for imposing such important taxes, and should not be confused and misled by having the Dominion collect taxes levied by provincial legislatures. Finally, it is desirable to be able to make satisfactory arrangements with other countries to avoid double taxation on Canadians and their incomes abroad.

It is not these reasons, however, important as they may be in themselves, which impel us to propose to the provincial governments the rental of these tax fields to the Dominion, or the vacating of these tax fields for the period of the agreement. It is the three more fundamental reasons which cannot be overcome by any sharing arrangement, however elaborate or ingenious it may be.

The first of these reasons is fairness. Incomes, and particularly profits, vary greatly as between provinces and regions of Canada; taxes on them, therefore, produce greatly different revenues in the different provinces—revenues which bear no close relation to the needs of the province, nor, indeed, to the importance of the economic activities of the province. It is much fairer for the nation as a whole to tax these incomes and profits, which arise directly from the economic activities of the whole nation, and which are largely determined by the state of our foreign trade as a whole and by national policies. Our prosperity and our trade are no longer local or even provincial matters. The essence of our national and international economic policies at the present time is interdependence and the great advantages of specialization and foreign trade. Not only do all our regions depend and draw upon one another, but we all in Canada depend, directly or indirectly, upon foreign trade, which we must pursue and promote as a nation, as well as individual traders. If the changing circumstances of our export markets or the developments of a national policy in adjusting our trade to them, favour certain regions and bring higher incomes to them, it is only fair and proper that the revenues of the nation as a whole should benefit primarily, rather than the revenues of the local community or the province. The latter will benefit from the secondary effects of the prosperity in the region, as they should, that is from the higher level of spending, from improved property values, from more automobile licensing and gasoline consump-

tion. It is the Dominion, however, which should derive the primary revenue from those sections of the country which benefit from the change, and it should accept the primary reductions in revenues from those sections which suffer.

At the present time, our major areas exporting to overseas markets will benefit greatly from the credits being provided by the nation as a whole. The Dominion must have the right to tax to whatever level is possible and proper the incomes which such huge Dominion loans make possible. Only by this means can we soundly finance projects of this magnitude, and only by projects of this magnitude can success be achieved in our post-war employment program.

In due course, we shall be promoting some of our export trade by agreeing to import more through reductions in our tariffs, because, on balance, this will benefit the nation as a whole. In such circumstances, national revenues must secure all the benefits possible from the improvement in incomes in those areas which benefit, and the nation as a whole must be prepared to make such adjustments, including such public expenditures as may be needed, to find alternative markets or occupations for those groups and areas which must meet the additional competition of imports.

Climate, geography and history have made it advantageous for corporations and wealthy persons to locate in certain favoured regions of Canada, rather than others. If the major taxes that can be levied by any Government, those on incomes and profits, are levied by the local and provincial authorities rather than by the national Government exclusively, then the favoured areas become more favoured, and the less fortunate areas face greater difficulties, which force them into measures and makeshifts which ultimately exaggerate their economic difficulties and handicaps. Indeed, there is danger that ultimately the efforts of the less-favoured provinces to secure revenues which richer provinces are able to derive from income and corporation taxes may force them into measures which seriously restrict trade between provinces and result in the Balkanization of Canada.

As a consequence, it is unfair for provincial and local governments to utilize these major taxes on incomes and profits, which vary so widely between provinces and which produce such vastly greater revenues in one area than they do in another—another which may be just as deserving, just as important in the national life, but not so attractive to corporations and the well-to-do. In particular, it is unfair that the changes in incomes and profits arising from conditions abroad and the application of national policy should be subject to local taxes at a time when the nation as a whole is so much in need of revenue to meet its huge commitments arising out of the war and to carry out a successful employment and foreign trade policy. In this modern world, fairness requires national taxation of income.

The second fundamental reason for the Dominion rather than the provinces taxing income and profits, is that these are so unstable and fluctuate so much, particularly in any one region, that they are not a suitable form of revenue for provinces which need dependable revenue because they do not have the same facilities for borrowing which the Dominion enjoys. The Dominion needs all the revenues it can obtain, over a long period, and must, therefore, leave no tax field uncultivated. It can, however, accommodate itself to fluctuations in revenue much more easily than any province can, even the wealthiest, for the Dominion has not only unquestioned credit but also full control over money and banking which enables it to determine to a large extent the availability of credit for its own needs and for others. Indeed, if faced with unemployment, the Dominion would probably wish to have its expenditures considerably exceed its revenues, the excess being financed by borrowing, in order to stimulate and expand employment and incomes. Provinces, on the other hand, cannot be expected to assume such a large responsibility, and they need more stable sources

of revenue than are provided by progressive income taxes and profit taxes. The Dominion, however, if it is to take the risks when conditions are uncertain or adverse, must be allowed to recover its position by making full use of these taxes under conditions of prosperity.

The third and most important reason for the Dominion having exclusive use of these taxes on income and profits is the need for careful management of them as part of the national employment and economic policy. Social justice requires that these progressive taxes be used to the fullest extent possible; economic common sense requires that they be limited to rates that will not stop people working hard and taking those risks which are necessary if we are to produce effectively and make progress. It requires the most careful judgment to balance these conflicting considerations under all the changing economic conditions and political pressures which a modern nation must face. Yet success is vital if we are to maintain employment and economic progress. Success would be made very much more difficult, and perhaps impossible, if it required the joint action of ten governments rather than one. The Dominion is prepared and is best able to carry the responsibility of seeing that these progressive taxes are fully used, but not used so much that they do more harm than good. If, however, the provinces are also in this field, there will be a natural tendency for them to take a narrower view, a purely financial view, and to force the total of their taxes and Dominion taxes to uneconomic levels. If, for example, experience showed that the corporation income tax, at some time in the future, was so high that it prevented the proper expansion of industry and employment in the nation as a whole, in the judgment of the Dominion Government, it would be proper to reduce it; but if the provinces were also using that tax, some of them, if not most or all of them, would be likely to raise their corporation taxes to take advantage of the reduction made by the Dominion. The provinces might feel, quite rightly, that they could not afford to take as long range a view as the Dominion, and if they were in need of revenue, they would probably find it difficult to reduce their taxes or to refrain from increasing their taxes because of the possible effects upon general employment and economic development in the country as a whole. This argument would be especially strong in times when employment and incomes were declining and when vigorous efforts were needed to encourage private expenditure and the expansion of industry. In such times, provinces would naturally be faced with declining revenues in other fields, and would be understandably reluctant to join in a program of reducing income or profits taxes which however beneficial its long-run effects might be, had the immediate result of reducing substantially the revenues on which provincial expenditure depended.

The three important arguments which I have cited, those of essential fairness, of instability, and of economic management, do not apply with anything like the same force to the field of excise taxes, or to other taxes.

I want to say that because there is a very real, vital and wide distinction between double taxation in these things and double taxation in some of the other fields which have been discussed to-day. The arguments which are used for Dominion occupancy of the income and corporation tax fields do not apply to the same extent in regard to succession duties. It is a much smaller tax, to begin with.

But there are very powerful arguments in favour of sole occupancy by the Dominion of the succession duty field. These reasons were presented in the proposals which the Dominion government placed before this conference in August last, and they were later elaborated in the Economic Committee, and were developed also yesterday by the Premier of Manitoba in what he had to say about succession duties. I am not going to take the time of the Conference to argue that case to-day. We have given this matter of succession

duties very, very careful consideration. The economic advantages of the Dominion being in the field exclusively are very, very great. And certainly it is necessary that the Dominion government be in the field on some basis.

Reference was made in these discussions to the fact that the occupancy to some extent of the succession duty field by the Dominion government, which has been the case since 1941, is of very great assistance in the administration of our income tax system. Our requirements are so great that we must administer that system as efficiently as possible; and I am told by the National Revenue officials that one of the great advantages of the Dominion government collecting succession duties is that it results in their getting far more income taxes than they would if they were not in that field at all. We have got to be fair to the income taxpayers of Canada, and we have got to be fair particularly when income taxes have to remain at a considerable height for a considerable period of years.

When people evade the payment of taxes, they are not robbing the Minister of Finance; they are not robbing some people at Ottawa: They are robbing their fellow taxpayers in the Dominion of Canada. And we cannot afford to make changes in our system which would result in a more inefficient method of the collection of income tax. That is apart altogether from the economic reasons which we have put forward for being in this succession duties field—which is, the greater freedom it gives to the movement of capital, and the greater facility it gives in the making of reciprocal agreements, and other reasons put forward.

And I wish to be very definite about this, and I want to be very definite on the part of the government, that we cannot agree to vacate the field of succession duties for the reasons set out in the proposals of last August, which were further elaborated upon in the coordinating committee, and which were again supplemented by discussions in this session.

We regard it as very much in the interest of Canada that the succession duties field be occupied solely by the Dominion. However, the provinces of Quebec and Ontario took strong exception to sole Dominion occupancy of this field. Therefore, we modified our original proposal, as set out by the Prime Minister in his statement of Monday. This followed the proposal made last week in the coordinating committee.

We, of course, are prepared to stand by that statement. Further than that, however, we cannot go, in meeting the suggestions of the provinces in the matter of succession duties.

It was suggested also, as I have said before, that we vacate without compensation—that is the way I understood it; I may be wrong about it—certain fields of taxation. These are not on the same footing at all.

Let me turn first to the security transfer tax. It has been said that this is not a large tax and that it does not yield very much money. But the security transfer tax was not a tax that we put on during the war. It was a tax that was in existence many years before that—I forget the exact year, but I think it was around 1915 or 1920. We imposed the security transfer tax at that time. The argument used here that we should not go into the field during the war, and then stay in it after the war, does not apply to the security transfer tax at all.

Then, I come to the electricity tax. If my memory serves me correctly, the electricity tax was imposed at the very outbreak of war, in the fall of 1939. It may have been in the spring of that year; I am not quite sure about that. But the only way it was imposed was by adding electricity to the list of articles on which sales tax should be paid. It is a sales tax and, as I said before, if we are going to be asked to give up a sales tax on the ground that we imposed it for the first time during the war, or on the ground that it was double taxation, then we cannot for one moment agree to that principle, because sales tax is a very large part of our revenue.

We do not think we should be asked to go out of the field of taxation of electricity. What is happening in connection with electricity? Formerly we were getting substantial revenues from the taxation of public utilities selling electrical current. Many of those public utilities have been taken over by the provinces. Some of them have been taken over by the provinces since the conclusion of the wartime taxation agreement in 1942. I want to make it very clear that I am not expressing any opposition whatsoever to the nationalization or provincialization, whatever it may be called, of electricity selling companies.

But the fact is that this procedure has removed them entirely from taxation by the Dominion, with great and serious and increasing loss of revenue to the Dominion. And if we are to have any field for taxation at all there, we must be free to place a sales tax upon electricity, just as we place a sales tax upon other commodities which are sold. And that is all we are doing in regard to electricity.

The other taxes are in a different category. These are special excise taxes, non-sales taxes, where we entered the field during the war. These are the gasoline tax, the amusement tax and the race-track pari-mutuel tax. And with regard to those taxes I say at once that we are prepared to vacate those fields if we get adequate financial and real financial equivalents for vacating those fields, which is satisfactory to all the provinces. We cannot think of any, as we said in the Co-ordinating Committee last week. And the discussions in this committee have indicated how difficult it is to work any financial equivalent which will be fair to the provinces. What certain provinces can do in connection with this taxation, another province cannot do. It may be that certain provinces cannot afford to submit to a reduction in this field, or undertake certain services, while other provinces can. However, if the provinces can agree upon a financial equivalent for these fields, we of course will carry out our undertaking which was made by the Prime Minister in his statement on Monday. I do not think the Prime Minister mentioned the race-tracks or pari-mutuel tax. It is a small and uneven thing. The benefits from it are confined to three provinces. The other provinces do not have it at all. We are quite willing to act in connection with the other two which the Prime Minister mentioned, that is the gasoline tax and the amusement tax.

At a later time I may have something further to say about the other phases of the Ontario brief. Those, however, are I believe the crucial points, and the important comments I should like to make respecting the Ontario brief. Of course there are some points in there which it would be desirable to answer, had I the time to make a list of them.

I now come to the province of Quebec. As I understand it, Mr. Duplessis did not shut the door on our offer. But he took the position—one to which I should like to refer for just a moment—that direct taxation is either legally or constitutionally exclusively a matter for the provinces. Is that correct?

MR. DUPLESSIS: I did not say exclusive jurisdiction! I said priority.

MR. ILSLEY: Perhaps we are not very far apart, at all. I do not know exactly what priority means.

MR. DUPLESSIS: You should know; surely we had many of them during the war.

MR. ILSLEY: It was suggested here yesterday that the question as to whether the Dominion government has the right to enter the direct taxation field is one as to whether that right will be upheld in the courts. The courts have repeatedly held that the Dominion government has equal rights to impose either direct or indirect taxation.

And let me say right here that I dissent entirely from the view that the Fathers of Confederation were mistaken when they gave that right to the Dominion government. Where would this country have been at the time of the first war, or the one which has just closed, had it not the right to go into the field of

direct taxation as well as that of indirect taxation? It would have been a nation with its hands tied behind its back. And this view, that the Fathers of Confederation were foolish when they foresaw that there might be national emergencies when all taxation powers would have to be exercised by the Dominion government, is a view from which I must entirely dissent.

I have the same respect for the federal system that Mr. Duplessis has. And I want to say right here that when certain other of the premiers, for whose views I have great respect, talk about the desirability of having a completely rewritten constitution—admitting as they do, at the same time, that it is a very difficult thing to do—I would like them to have some regard for the views of the older provinces which are genuinely attached to the constitution. They want their constitution, substantially the constitution as it exists at the present time. And that is the reason why in these proposals we did not suggest any change in the constitution, with only a very minor exception to which no objection I think could be taken by anybody.

Mr. DUPLESSIS: To the delegation power.

Mr. ILSLEY: Mr. Duplessis objects to that very small change. That shows the depth and strength of the attachment to the constitution held by vast sections of the population of Canada, and that is something we have to take into consideration in the agreements we make. The dominion government had a difficult task to perform in framing proposals here which would have respect to the constitution of this country, and we did the best we could within those limitations.

These proposals do not infringe upon the constitution. As was said yesterday, the surest way to wreck the constitution is to put the provinces in an impossible position—the weaker provinces. Something must be done in regard to this question. I think that is pretty well admitted. The constitution is observed in the proposals that we have put before this conference. I say that I think something along the lines of these proposals is necessary for the preservation, and at least will contribute to the preservation of confederation, in substantially the form in which we know it. Because Mr. Duplessis used this language, saying that the proposals, if they were to be applied, and if they were accepted, would sound the death knell of confederation. He said later that the danger was not that of scuttling the conference but it was a danger of scuttling confederation itself, and that the scuttling of confederation could be achieved by putting into practice the federal proposals.

I say again that we approach this matter with as much respect for the constitution and as much love for the constitution and with as sincere a desire to preserve confederation by making some provision against forces which would wreck confederation, as we possibly could.

The next premier who spoke was my friend, the premier of Nova Scotia. Mr. Macdonald used language with which I disagree, and perhaps it would be best if I were to read it. This is what he says at page 39 of the report:—

Let me ask you, Mr. Chairman, and the delegates here, whether they represent the Dominion government or the provinces, let me ask anyone who is within sound of my voice, let me ask that greater body to which we as public servants are all accountable, the citizens of our provinces, or of Canada, let me ask any of those people whether they think that is a fair or honourable or dignified position in which to place the provinces in this dominion. Provincial autonomy will be gone. Provincial independence will vanish. Provincial dignity will disappear. Provincial governments will become mere annuitants of Ottawa. Provincial public life—and I do not think these words are too strong—will be debased and degraded. I cannot think that such a state of affairs is desired by the representatives of the government of Canada here to-day,

my one-time colleagues. I am sure that they have no wish or desire to see such a state of affairs come to pass in this country, nor can I believe that such a state of affairs is desired by the people of this country.

Now, what are the features of the proposals that are to bring about that condition in a province? Well, these were the features that were mentioned—that the provinces would be financed partly by subsidies, and secondly, that the provinces would have no exclusive fields of taxation.

I wish to point out that the provinces were financed more largely by subsidies immediately after confederation than they will be under these proposals. The proportion of the revenues of the province of Nova Scotia immediately after confederation which was supplied by federal subsidy was nearly 70 per cent—to be exact, I believe the figure is 69 per cent. The proportion under the present proposals is considerably less than that.

Secondly, he says they have no exclusive fields of taxation. The provinces have never had any exclusive fields of taxation. We are offering to make certain fields exclusive here, if the terms can be agreed upon. But never since confederation have the provinces had exclusive fields of taxation.

And, with great respect, I cannot agree that the supplying of the payment to the province of Nova Scotia of something like \$10 million out of \$23 million revenue, there being a considerable number of other sources of revenue open to the province of Nova Scotia—just as many as there ever were, with the exception of the corporation tax and income tax—would result in this situation in the province of Nova Scotia, one in which it has in any way lost its independence. The province preserves its independence if it has a substantial source of revenue open to it, which can be expanded. There is a very considerable amount of this sort of revenue in Nova Scotia.

Mr. Macdonald says that he believes in the principle of fiscal need subsidies. Surely fiscal need subsidies are subsidies; and they are subsidies much more undesirable from the standpoint of provincial independence than are fixed subsidies. Fiscal need subsidies, to be distributed by a commission, such as a federal grants commission or a finance commission, involve so many things that are undesirable from the standpoint of the province. They involve the province going to a commission and asking for money. It may be a commission, or it may be this body, or it may be the Dominion government. But, at any rate, it is an extra-provincial body which must supervise the level of social services of the provinces and which must supervise the level of expenditures of the provinces, and which must supervise the level of taxation in the provinces.

And if subsidies are bad, that is the worst type of subsidy. The subsidies now being proposed by the Dominion are contractual. The province can do exactly as it likes about its level of social services. It can do as it likes with respect to its level of capital expenditures. It can do as it likes with respect to its level of taxation, and it has great flexibility.

Coming from the same province as Mr. Macdonald, I would not for one moment lend myself to a proposal of this kind if I thought that provincial independence would vanish, if I thought that provincial dignity would disappear, or that provincial governments would become mere annuitants of Ottawa, so that provincial public life would be debased. That has not been the condition since confederation in Nova Scotia, although subsidies have continually been, and are, part of the revenue of that province, and although there has never been an exclusive field of taxation in that province.

Mr. MACDONALD: There has been in practice, I think. Whether there has been in law or not, in practice there have been certain fields which were respected as being provincial.

Mr. ILSLEY: There was no right; it was not a right in law.

Mr. MACDONALD: Perhaps not.

Mr. ILSLEY: Mr. Macdonald has suggested that there be a complete redrafting of the confederation document during the next three years, in which the provinces would be allocated certain sources of revenue which would be channelled to them to enable them to discharge their responsibilities without subsidies.

Now, I devoutly wish that something like that would be possible, but I really believe it is not possible in the Dominion of Canada. When one considers the condition of certain provinces, it is realized that some of the provinces are at a point where, if the Dominion government were to go out of the field of taxation entirely, they would not be able to finance from taxes that they would raise themselves, because their taxable capacity is so low.

We have never been able to finance in this country without subsidies to supplement the allocation and distribution of tax powers, and I do not think it is practical to think that we ever shall. The country being divided as it is, and the provinces being as they are, I do not think it is possible to make an allocation of powers, an allocation of jurisdiction, which will enable all the provinces to finance without certain assistance from the country as a whole.

Mr. Macdonald has not, I think, definitely shut the door on this agreement and I am in hopes that he will see his way clear to come in, because I think Nova Scotia is the type of province which is benefited by this agreement. It is a poor province which has not great resources, resources that are taxable at any rate, and it would appear to me that the interests of health and the interests of its population as a whole would be advanced rather than retarded by an agreement of this kind.

With respect to the premier of New Brunswick, I will not go into his proposals. He, on the whole, I believe, is favourable to the proposals put forward by the Dominion government. Naturally he is not entirely satisfied with them; he wants them improved in certain respects from the standpoint of the province of New Brunswick. I wish there were some way in which we could meet him, but I do not think there is. His proposal, as I understood it, and he will correct me if I am wrong, was that all the provinces be paid the minimum provided by the agreement and that if in any year the increase in population or gross national product has carried the payment to that province up past the minimum, the excess be placed in a fund and that fund be allocated among the provinces on the basis of fiscal need.

That proposal would not entail further cost on the Dominion government, but I doubt whether it is one to which the other provinces would agree. If the provinces are prepared to agree to that proposal, I certainly am prepared to say that the Dominion government would give it consideration. In making that statement I do not know that we would accept it, because other considerations might turn up in the meantime; but, on the face of it, it looks like a proposal that could be considered if the provinces would agree. However, it excludes two provinces, British Columbia and Prince Edward Island, and it also means smaller payments to the other provinces during the interval. It seems to me, however, that it is a matter for agreement among the provinces rather than one about which the Dominion can do anything. I do not think the Dominion could adopt such a proposal because I do not see how it would be satisfactory to the other provinces.

As regards the provinces of Manitoba, Saskatchewan and Alberta, I will come to them later. With respect to British Columbia, I listened with great care to Mr. Hart's presentation and I read it afterwards. I can hardly tell from that presentation whether he will accept the offer made by the Dominion, but I might say that, in my opinion, there is from his point of view every justification for his doing so. I hope he will accept it.

I wish to make it clear that we cannot enter into an interim agreement such as he has suggested, subject to review as to the amount payable each year by the Dominion. That is one thing that would not be practicable or desirable. The agreement must be definite for the period of the agreement and not open to review year by year. I thought I should answer that suggestion made by the hon. gentleman.

With regard to Prince Edward Island, I listened carefully yesterday to Mr. Jones, who made a very strong plea on behalf of the Island. May I point out, with reference to that province, that we have given the most careful consideration to its special claims. We did so at the time we made the original proposals and we have done so since, following the representations that were made by the Premier of Prince Edward Island. Because of its relatively small population, the minimum fixed overhead charges of government, even when that government is administered with the greatest frugality, are bound to be more per capita than in any other province. This has been recognized in the special provision for a guaranteed minimum which is about fifty per cent greater per capita than the general average. The guaranteed minimum is also about double the province's present receipts from the Dominion. As another comparison, the proposed Dominion payment to Prince Edward Island will be about double the amount raised by the province from its own revenue sources, while in no other province will the proposed Dominion payments be as much as the revenue raised by the province.

Again, in the case of health grants, special minimum provisions have been made to take account of Prince Edward Island's position. As a result of these provisions, Prince Edward Island will receive about fifty per cent more in health grants than it would if these minimum provisions were not in effect. The amount made available by way of subsidy to Prince Edward Island does not represent all the benefits the Island will receive. It will, of course, like other provinces, share in social security benefits and public investment policies. We have gone quite far in attempting to meet the province of Prince Edward Island and I do not think the Dominion government would be justified in increasing the offer to that province.

With regard to the three provinces which have stated that they are prepared to accept and sign this agreement, some suggestions have been put forward which I will not comment upon at the present time. I do not know that the provinces would expect me to do so. Through their premiers, they have indicated that they are satisfied with the proposals put forward by the Dominion, but they are not entirely satisfied. That must be the case if anything is agreed to. There must be an element of compromise. I do not suppose that any of the parties to an agreement are altogether satisfied with it. It is all the time a matter of compromise, and all I can say is that I very greatly appreciate the attitude of the premiers of those provinces who have in a sense subordinated their objections to the agreement to what they consider the over-riding importance of coming to an agreement.

I should like to deal briefly now with the suggestion that has been made at times that the provinces, by entering into this agreement, go on a subsidy basis or a basis which does not leave them any financial responsibility or any chance of imposing taxes themselves. In other words, that it puts them in a straitjacket.

The provinces will still be collecting substantial revenues from taxes on gasoline, sales, amusements, tobacco and real property, as well as quite large amounts from motor vehicles and other licences and fees. They have derived and will derive large revenues from their public domain in the form of royalties, fees, stumpage and similar payments which are imposed at the discretion of the provincial government. They have, of course, derived and will derive huge

revenues from liquor control. Under the Dominion's modified proposals they will not only get the right to taxes on mining and logging operations, including corporation profits taxes in these fields, but they will also be able to retain succession duties, if they so desire—not exclusively but they will be able to impose succession duties if they desire. This adds up to a formidable list of revenue sources remaining at the disposal of the provinces. It will be increased by the addition of a retail sales tax if the Dominion's proposals are agreed to and the constitutional amendment permitting the delegation of powers is adopted.

Time does not permit me to endeavour to analyze the amounts involved in these various types of revenues for individual provinces. Thinking of the provinces as a whole, however, in the forecasts that were made of provincial revenues if the Dominion proposals were implemented, forecasts made in the Economic Committee, of the total revenues anticipated by the provinces (apart from the proposals in regard to succession duties and retail sales tax) amounted to no less than \$265 million apart from any subsidies from the Dominion government. The subsidies provided in the modified proposals of the Dominion would add approximately \$200 million to this amount. Consequently, the provinces would be deriving between 55 and 60 per cent of their revenues from taxes and other sources within their own control. If they choose to retain their succession duties, as the Dominion has proposed they may, the proportion of revenues derived from their own control would be higher, probably approaching two-thirds of the total. If retail sales taxes were instituted, as might be done under the provincial proposals, a further amount would be raised by sources under the provinces' control and the proportion covered by Dominion subsidies would be reduced.

I think we should realize that the plan of confederation contemplated a large proportion of the provincial revenues being derived from Dominion sources. In the five years immediately following confederation, 53 per cent of the ordinary revenues of the province of Quebec were derived from subsidies, 64 per cent of the revenue of New Brunswick, 75 per cent of the revenue of Nova Scotia and 36 per cent of the revenue of Ontario. These figures indicate clearly that a substantial proportion of subsidies is not by any means inconsistent with the plan of confederation. Indeed, the arrangements now proposed will not give rise to such high proportion subsidies as the action taken by the fathers of confederation themselves.

I think the time has come, Mr. King, when I should sum up the situation as I see it.

All provinces appear to believe that some agreement is essential and indeed urgent.

All provinces are willing for appropriate compensation and under certain conditions to allow the dominion for the term of the agreement exclusive use of the personal and corporate income tax fields; six provinces are willing similarly to vacate the succession duty field, a seventh is willing to do so if there is substantial agreement, and two provinces have, to say the least, a strong preference for sole possession of this field by themselves.

Three provinces (Manitoba, Saskatchewan and Alberta) have agreed to accept the Dominion proposals as they stand.

Only one province (Ontario) has submitted what might be called an alternative to the dominion's proposals.

This proposal does not, as I understand it, differ very greatly in kind from the Dominion proposals, but its effect would be to throw so great a net increase in obligations upon the Dominion that it could not be accepted by the Dominion. Nor has any other province expressed the view that it would be acceptable to it.

The remaining five provinces have expressed a desire to see some changes in the Dominion proposals, most of which would be of some benefit to themselves at the expense of the Dominion.

I have already discussed the Dominion's attitude to most if not all of these requested changes. Much as we would like to be able to meet at least some of these requests, I have already indicated why we believe it impossible to make any changes in the Dominion proposals which would increase the net obligations of or burdens upon the Dominion, which are already of staggering magnitude.

On the other hand, we are prepared to consider vacating for the period of the agreement the gasoline and amusement excise tax field—and, if the provinces desire, the parimutuel betting tax field—if a financial equivalent can be found which would be generally acceptable by provinces and not leave the Dominion worse off financially.

We had ourselves already suggested one or two formulae, although we do not recommend them as being in the general interest or as likely to be acceptable to all provinces. They have been strongly opposed by several provinces and not, I believe enthusiastically supported by any. This, of course, indicates the difficulty arising from the wide diversity in conditions, interests and outlooks as between the various provinces.

Under the circumstances it seems to me that the practicable thing to do at this stage would be for the provinces to discuss the matter amongst themselves to see if they can agree on some suggestion which would involve full compensation to the Dominion for any changes in our proposals which are generally desired.

In conclusion I just want to say that naturally I hope very much that an agreement can be reached. If it can be, the Co-ordinating Committee or other committees can work out details, which it has not been possible to cover in short statements that have been given in this plenary session, and the Dominion budget and provincial budgets can be framed on the basis of the agreement.

If it is not possible to work out an agreement, we will, of course, carry out the obligations in respect of taxation and otherwise set out in the war-time tax agreements. But it will be very difficult to so frame our taxation policies that the national income will be kept up to the highest possible levels and the problem of dealing with the requirements of the weaker provinces will be an almost insoluble one. I hope and trust that after nine months of examination and discussion of the Dominion's proposals of last August, an agreement can be reached. The consequences of failure will, as several premiers have said, be extremely serious for the future of Canada.

Mr. DREW: First of all, I shall do my utmost to be as restrained as I can under circumstances which I think invite anything but restraint. This has been an amazing presentation and I hope that every province here realizes that the veil is off and that the speech by Mr. Ilsley, which has just terminated, is a bald declaration by the dominion government that we can either take it or leave it, and that their promises, in fields ordinarily occupied in the past by the provinces, are to be redeemed by us although we were not consulted when the promises were made and new appetites created.

Mr. Ilsley has rather belittled the suggestion that there is anything in the arguments which have been put forward as to the dangers inherent in a subsidy system, or in fact in any system of that kind where one government collects money without limit, to use the words of the *Winnipeg Free Press*, and another government spends it without any responsibility to the people who put up the money.

To those who seem to attach so little importance to the dangers inherent in the system put forward, and now argued so vehemently at two or three points by the Minister of Finance, may I commend the words of a very great

Canadian, words which I quoted once before and which were spoken nearly sixty years ago prior to another dominion-provincial conference. I know that no one sitting at this table will deny that the greatness, the glory and the vigour of Canada to-day are due largely to the vision, the courage, the integrity and the wisdom of Sir Wilfrid Laurier. These were Sir Wilfrid Laurier's words:

It is a completely false principle that one government should impose taxes and another government spend the revenue therefrom. This will always lead to extravagance.

The other day I stopped at that point in the quotation, and I did so for a definite reason. Sir Wilfrid was so vigorous, later, in his comments upon this procedure that I thought I might be charged with having called him to witness on too strong a condemnation of the procedure. His closing words, not immediately afterwards but after a further explanation, are so strong that I shall not take the risk of translating them in case I should be charged with being too strong, but I shall do my best to speak the words that he used:

... trop souvent cette augmentation des subsides n'a été de le part du gouvernement fédéral que le paiement de la note en récompense de trahisons politiques.

I hope everyone realizes just what that means in relation to subsidies that can never be on a fixed basis. I might go so far as to say that certain variations that we have seen in the proposed subsidies already suggest that Sir Wilfrid Laurier's warning sixty years ago in stronger terms than I used in my first submission may have some validity even at this hour.

I do not think that any one of us should forget that the subsidy system has been tried in the past on a basis which was supposed to be more than adequate, and when a subsidy system was provided by agreement between the provincial governments themselves at the time of Confederation, every argument was used then that has been used by the Dominion government to-day here and in the Co-ordinating committee to support the principle of subsidies. They said: Any suggestion that this is going to lead to the danger of provincial dependence upon the federal revenue is quite without foundation. Yet in the case of Ontario we find that from a high point of 52·3 per cent which the subsidy at one time bore to the total budget of the province of Ontario, under a subsidy system which was then supposed to make it possible for the provincial governments to carry on their affairs, the proportion has shrunk to 2·7 per cent of the provincial budget from 52·3 per cent to 2·7 per cent. And in varying degrees that is true in the case of the other provinces.

The subsidy system, except as a temporary expedient and subject to the utmost precaution against its becoming in any way less flexible through the occupation by the dominion government of the remaining tax fields, has dangers which have not only been pointed out by great Canadians like Sir Wilfrid Laurier and by experts on a system similar to ours in the United States, but those dangers have been pointed out everywhere that the federal system has been in operation, and in every country where the federal system has broken down it has broken down under the very method which is before us here now.

I would commend also to the Minister of Finance in view of the statements that he has made this morning the reading very carefully of a book called *Mein Kampf*. The author is dead, but the warning is clear and still living. He will find very clearly set out there the proposition that in a modern state, with all the demands for social services that now exist, the authority of the individual states must be diminished and their power centralized in the central government. People would not believe that there was any danger in that. But make no mistake about it. No matter what wisdom there may be after the event, there were many people in Germany who voted for the man who wrote that book

with that thought clearly in front of them, but with the acceptance, however, of the proposition that that was the only way in which the state could effectively operate under a federal system. The result is clear.

Federal system after federal system has broken down through too great a centralization of authority and the diminishing of both the responsibility and the authority of the component units.

This is no New Deal that is before us. This is the oldest deal known to the governmental system. The first confederacy broke down 2,500 years ago over centralization, and history is clear right down through the years that dependence upon money coming from another government, with the provinces becoming merely local commissions, merely local paymasters of the centre government, ends the federal system no matter what honeyed words may convey a continuing faith in that form of government.

I do not know whether I should feel unduly flattered but there was implied flattery in the fact that so much of the time of the Minister of Finance was directed to the position of Ontario. Unless my memory is very short the Province of Quebec, the Province of Nova Scotia and the Province of British Columbia were quite as emphatic as Ontario on certain points. When the Minister of Finance was devoting some time to a discussion of the algebraic formula which we used for arriving at a specific per capita minimum figure, he implied that we were coming forward here with something very vague while the Dominion government was very clear, and so far as I heard him there was the suggestion that only Ontario was making such an alternative proposal. But let me read what the Premier of British Columbia said in his brief presented here yesterday. He said this in the legislature too, and he pointed out that behind him he had the unanimous vote of the British Columbia legislature in support of this statement:

Briefly our position is that we will recommend for a three-year trial period that the province refrain from imposing income and corporation taxes, provided we are compensated by a sum equal to what we would collect if again we imposed similar taxes to what were in force previous to the war tax agreement.

It is not called X. I do not know whether he calls it Y or Z, but it is an undetermined factor; and without any criticism of the Premier of British Columbia I would say that he has not even provided us with an algebraic formula.

Mr. HART: I am waiting for Mr. Ilsley.

Mr. DREW: Precisely. The Premier of British Columbia has hit the nail on the head. He is still waiting for Mr. Ilsley to give him the figures so that he can work out his formula. He cannot even tell me what it is, because with all the efforts he has made Mr. Ilsley has not given him a definite figure on which he can work out his formula. We have ours, and just the moment that we know what fields are open to us and the fields within which we shall be collecting taxes one of our very junior officials could easily sit down with any official in the Treasury Department and work out as a matter of simple arithmetic exactly what X means. We know what our budget requirement is. We know what this tax produced, and just as soon as we know which fields we occupy in whole or in part we can quickly work out exactly what X is. What is British Columbia's undetermined figure? I cannot tell; Mr. Hart cannot tell because he cannot get the figures from the Minister of Finance.

Do not suggest that Ontario has created the difficulties here. Perhaps it should be regarded as flattery, but I think it is flattery of a kind that is out of keeping with the situation that was clearly stated here. I may be wrong, but the only difference I discerned between the position of Ontario and the position of Nova Scotia was that we did not propose a specific formula for

arriving at the figure, and that our position with regard to succession duties was somewhat different from that of Nova Scotia; otherwise, as I read the statement, and read it again in the printed report, the position is precisely the same. The position of the government of British Columbia, until Mr. Hart came here and said that they were prepared on terms to vacate succession duties, was exactly the same, I thought, because the statement for which he got unanimous support in the British Columbia legislature said that they were prepared to recommend a three-year trial period to refrain from imposing income and corporation taxes. To that has been added succession duties. Otherwise from the statements he has made, as I understand it, his position is precisely the same as ours.

Insofar as any suggestion is concerned that we have presented some alternative with very dangerous possibilities, may I remind the conference what Mr. Hart said in the British Columbia legislature. This is what he said:—

The alternative to this is that we proceed to collect income and corporation taxes at rates current before the war. Should we be obliged to do this, the Dominion government by the terms of the present tax agreement must reduce their taxes accordingly,—

I will interpolate here, “under their contractual undertaking”. I continue with the quotation:—

—but not exceeding ten per cent on corporation incomes. Consequently, our re-entry into these taxing fields would not mean increased taxes for the taxpayers. Should this step be necessary, we would ask the Dominion government to collect the taxes on our account so that there would only be one collecting agency.

That is clear, and I read it for this reason, that the position put forward by Ontario, so far as I have been able to understand what has been said here, does not differ substantially from that of the province of Quebec; does not differ substantially from that of the province of Ontario except in regard to their possible vacation of succession duties, and I believe that was governed by the general agreement here that that would be done. So far as I am aware it does not differ from the position of British Columbia except in regard to succession duties and the fact, as I have pointed out, for reasons not under Mr. Hart's control, we are somewhat more definite as to what we will receive.

But when there is any suggestion that we are sitting here as reluctant recipients of benefices from the Dominion government I would point out, and quite properly, the evidence of the very measure of understanding and compromise which I hope will continue to be displayed in spite of what may have appeared to be the closing of the door.

I think it should be recalled that so far as these various adjustments are concerned the Dominion government made an original proposal last August in regard to the amount of money, and made another one in January and a third one this last week. Each formula was different, and in the last two cases the basic amount was \$15 instead of \$12; although for reasons which I have already explained that, to some extent, was an illusory difference. We have suggested an alternative basis of arriving at the figure for a reason which I hope every provincial premier here recognizes, although it has not been explained by the Dominion government.

The minimum payment offered by the Dominion government is not \$15 per capita. I hope that is fully realized. The minimum offer is \$15 per capita multiplied by the population of 1941 or 1942, depending on which the province prefers, and which, of course, would be dependent on whether the population was higher in 1941 or 1942. We all know that there were certain provinces which lost population between 1941 and 1942. The per capita payment is not

a minimum of \$15. It is very easy to understand that and I feel therefore that it is fully recognized although it was not explained to us by the Dominion government.

Take Ontario, as an example. If we take the 1942 population as a basis for comparison we find that the population of 1942 was higher than 1941; therefore, naturally the 1942 formula would be taken as the basis. But if this were followed and assuming that for the three years, 1946, 1947 and 1948 the per capita G.N.P. resulted in a figure less than \$15 per capita we will be called upon to fall back upon the minimum basis, and the minimum basis set forth by the Dominion government is \$58,260,000 to Ontario, being based upon the Ontario population of 3,884,000 people in 1942, multiplied by \$15. Even taking the computation by the Dominion government of the increase in population in Ontario, which provides for no influx of population by any of the devices which have added to our population in the past, in the third year in question Ontario would be receiving not \$15 per capita but \$14.50, because we would be dividing the minimum of \$58,260,000 by fifteen, multiplied by the population of either 1941 or 1942 and then divided by the population of 4,159,000 for that year. But there is another factor entering into this of which Mr. Hart has extreme cognizance. Mr. Hart is fully aware of the difficulty raised by a situation of this kind because he has had a heavy influx of population, and unless there are to be laws passed that there will be no people coming into Ontario from outside it might easily happen that Ontario will have a population of 4,400,000 or 4,500,000 in the last year under consideration. If that were so Ontario's per capita payment would be \$13 or less. I only hope that every premier is fully aware that it is not a fixed \$15 per capita minimum payment, but that this proposal brought forward this past week is open to the very objections that the original subsidy proposals were, having regard to the fact that with any limitation of the G.N.P. for Canada and falling back on the per capita basis related to the minimum dollar payment actually we would be, for the reasons I have explained, receiving a diminishing amount over the years. That is the reason why Ontario proposes another formula which in no way differs substantially from the formula put forward by the Dominion government except that the variable factor which will govern the minimum is changed, and the minimum would be \$15 multiplied by the population of the year before the payment in any case. That is the only difference in principle between the two formulae; and unless I am greatly mistaken that is what many people, and the public generally, thought was contained in the Dominion proposal, but it is not.

That is the only difference in principle, but there is a difference in the choice of the basic year, and that was simply taking the basic year as the same basic year suggested by the Dominion government in August last, which was the year 1941. You see, it is not easy to have these changes put before you and see exactly what the result is until they are examined carefully. Without in any way reflecting on any other proposal before this conference may I say I believe that the Ontario formula is a frank one which can be easily settled. It does carry into effect what I think the public generally thought, namely, that the minimum was going to be tied to the population basis in the country, and that it would move up upon a minimum basis in relation to that population. Anything else creates the very inequity and the very danger inherent in the early subsidy arrangements. For that reason I think, when these formulae are examined, it will be found that the Ontario formula actually does carry out the wishes of the provinces much more effectively than does the formula of the Government of Canada.

But may I say, as I have said in the public and private meetings since we met here on August 6th last, that at no time has the Government of Ontario put forward an arbitrary position from which it was not prepared to recede to whatever extent would be reasonable, subject, however, to clear basic

principles; and those basic principles have been clearly stated, not only on behalf of Ontario, but on behalf of the Province of Quebec, on behalf of the Province of Nova Scotia, and on behalf of the Province of British Columbia, in these past few days. Yes, I will go further and say that these principles have been stated very well by other provinces, although in the end they said that "with all the disabilities we have expressed we are going to take the money."

It is very easy for demagogues, and of course that does not include the present company, to create the picture of the rich, selfish province of Ontario, unwilling to in any way diminish its advantages. That is easy. It is the oldest device known to demagogues,—the rich man compared with the poor man.

The Province of Ontario is made up of more than four million people today. They are people of varying degrees of personal wealth, ranging from the rich to the poor. The productive capacity of those people is very great, and it is their productive capacity by which the figures of production from which the taxes are drawn are almost entirely created. Yes, we receive benefits from outside of Ontario; and those benefits were admitted, were stated in our brief presented last January; and may I remind everyone at this Conference that Ontario has said, and said very emphatically, that it recognizes certain advantages it possesses, and that it is not only willing, it is insistent upon combining with the other provinces of Canada to share any advantages it possesses. That has been our position right through this Conference, in open and closed sessions. It is our position now. And, without taking any undue umbrage at the statement, I did not think it was in keeping with the spirit that has been displayed at this Conference when the Premier of Saskatchewan spoke yesterday of our suggestion in regard to a national adjustment grant as 'a Confederation poor-box from which the poor relations were going to receive something of the nature of an annual Christmas present.' I have made our position perfectly clear from the beginning, and I made it clear here just a few days ago. What I said then, and what I repeat, is that Ontario believes in the system of fiscal aid to those provinces which from time to time require special assistance because of the fact that their economy is not so widely or so flexibly based that through their own free taxing powers they can meet the difficulties which arise. What I said then and what I repeat now is that, while we suggested one form of administration of this national adjustment fund, I believe the exact words I used were that we were not married to that proposal and that we would accept any system of administration of a national adjustment fund which was acceptable to this Conference. Because we shall not, within the term of any agreement we now sign, be drawing from that fund, to which we naturally will contribute very heavily.

Now as to the amount, and as to the method of administration. We are ready to sit down and agree to any amount which appears to those who are most concerned with this to be adequate. And I would certainly defer very largely, in agreeing to the form of administration, to the expressed opinion of those provinces which would be receiving the benefit of that fund, because in the very nature of things their satisfaction with the method of administration will be the test of its success. I think I cannot be clearer than that. In our brief we suggested an initial figure of \$20,000,000 which, I would point out, was more than \$5,000,000 above the figure recommended by the Rowell-Sirois Report, upon which so much reliance has been placed by those very provinces which we seek to assist in this way. We are suggesting a larger amount. If that is not enough, and the argument can be shown clearly for a larger amount, then let us agree to that large amount.

I stated the principle to which we adhere, that we are accepting the principle of fiscal aid in a fund administered on a basis acceptable to those provinces

which will be dealing with it; and we are prepared to agree to whatever may by mutual consent here be regarded as an adequate sum for administration in that national adjustment fund. If any further clarification of our position is desired I shall be glad to amplify these remarks. I feel perfectly sure that the Premier of Saskatchewan did not mean to convey what his words might seem to convey. I merely take this occasion to point out that nothing in the brief we have presented, nothing in what has been said here on behalf of the Province of Ontario, would justify any imputation of a patronizing attitude on the part of the government or the people of Ontario to any other part of Canada.

As I said before, we are not here seeking largesse. We are all here, the Dominion government as well as the provincial governments, to determine how the collective tax payments can best be allocated for the advantage of all the people of Canada. The allocation of those taxes under any workable system will not mean one cent more or one cent less out of the pocket of the taxpayers, who pay all the taxes whether the tax collector is the Dominion Government, a provincial government or a municipal council.

I do repeat that before any province here carries out its stated willingness to accept the Dominion proposals as they now stand, even with some of the disadvantages which have been indicated, they should examine carefully what will happen if they have a sudden accession of population within the next few years. The prairie provinces particularly will well remember how quickly population can rise—yes, and how quickly population can fall—in those provinces. And they, particularly, might have regard to this unsatisfactory aspect of the formula of the Dominion government presented to us.

I would only recall that it would be advisable for every province here to examine the figures of increases in population. I recall that, apart from normal growth, Ontario has seen 120,000 new people in a single year. We have no way of knowing whether that will be repeated. But we do know that if it were repeated, and were repeated during the years under consideration, that the proposal now made by the Dominion government would produce most inequitable results in Ontario—even if the basic proposition were sound.

I have already said that it is rather easy to picture Ontario as the wealthy province not willing to disgorge its riches. There is another aspect to this matter that has nothing to do with any such demagogic picture of the situation. The premiers who sit around this table represent a group of Canadians living in particular parts of Canada, and paying into the coffers of the several governments.

We are discussing here not only what money will be received by those governments, but we are discussing here what is going to be done with money collected from those particular people. And therefore, without any suggestion at all of the wealth or the productive capacity of the people of Ontario, I think there are certain simple figures which have to be kept in mind—because they do measure the responsibility of the representatives of the government of Ontario and of the government of Quebec and of the government of British Columbia, as well as of every other government.

Let us just remember this simple proposition, that of the total of \$1,555 million collected last year in taxes from the people of Canada, 48 per cent of this came from the people of Ontario. I am told that that is not right. Examine the figures.

Mr. GARSON: Collected in Ontario, but not from the people of Ontario.

Mr. DREW: That is the same old argument. We have already indicated that there are certain advantages, and that those advantages we were willing to share, as we have indicated in our brief; but that the overwhelming majority of every dollar produced in Ontario is made by the work, the brain and the vigour of the people of Ontario. And we are quite prepared to have that vigour

and energy put into the job. But the wheel-horses of confederation are Ontario and Quebec; and our position simply is that as part of that great nine-horse team, the wheel-horses cannot be hamstrung if the rest of the country is going to do a job.

Subject to the qualification I myself made, 77 per cent of all the money paid in taxes comes from Ontario and Quebec. And from the people of Ontario, Quebec and British Columbia, according to those figures, and subject to that minor qualification, comes 85.5 per cent of all the money collected in taxes from the whole of Canada.

And subject to that qualification, those people do as we said—

Mr. GARSON: What is the qualification?

Mr. DREW: I think I am capable of understanding the English language. I said quite clearly in our brief what those qualifications were; and later we have said that there are certain advantages that we gained from trading with the whole of Canada, and which we are prepared to share. And I repeat, in case you did not hear it clearly before, that we are willing to share that; and we set out the device by which it can be shared.

But the overwhelming majority of all that money is made, not by business done outside, but by the work of the people of Ontario—just as it is done by the work of the people of the different provinces throughout the whole of Canada. Now, if that is not clear, I shall amplify it further—but not at the present time.

I say that according to those figures, and subject to that minor reservation which I have now made clear, the people of Ontario, Quebec and British Columbia contribute, according to those figures set before us, 85.5 per cent of the money paid. And the remaining six provinces contribute 14.5 per cent. I only mention that for this reason, that in approaching the problem of a proper allocation of these taxes, which will have full regard—and I think you will be able to understand this—for any advantage gained in Ontario from business done in the rest of Canada, that our responsibility in the settlement reached on behalf of the people of Ontario must have due regard for the heavy share which will come from Ontario. Of all the money collected which goes out for these various purposes, I repeat that not one cent of it is money given by the dominion government. They are simply channelling, to be used throughout the whole of Canada, money which they draw from the nine provinces.

Mr. Chairman, I think this would be the opportune time to adjourn for lunch, because I have some further words to say.

At one o'clock the Conference took recess.

AFTERNOON SESSION

The Conference resumed at 3.30 p.m.

Mr. DREW (resuming): When we adjourned at one o'clock this morning I was pointing out the fact that so far as the government of Ontario is concerned it must make its decisions with due regard to the responsibility which that government has in relation to its own people and the effect that any decision here would have upon such a very large proportion of the people of the whole of Canada as well as upon the productive capacity of a people who are very productive, as shown by the figures presented by the Dominion government.

Without making any further comment on certain figures and percentages that I gave this morning, I will only say that the figures I used are the figures

which have been supplied within the past week by the Dominion government showing the sources of the taxes they receive and the taxes they will be spending under whatever arrangements we make here.

One of the things that I think must surely have impressed itself more firmly than ever before upon the mind of the representative of every government here is the fact that while we have been talking about a temporary agreement the Dominion government, by the statement made by the Prime Minister of Canada on Monday and by the review and amplification of that statement made by the Minister of Finance this morning, is setting up extremely heavy permanent obligations and suggesting at the same time that the financial arrangements to carry out those permanent obligations can be temporary. That does not affect the merit of the promises made or of the various services that are suggested, but it does go to the root of the possibility of this being a temporary agreement.

Mr. Ilsley referred at some length to the various tax arrangements and to the cost of the promises which the Dominion government has made. For instance, he spoke of the amount required for health insurance and of the amount required for old age pensions and as everyone who heard his statement this morning will recall, he was discussing those in relation to the tax fields which they ask the provinces to vacate and the possible vacation of other tax fields into which the Dominion government has entered in these recent years.

But is it not significant that again, while emphasizing the heavy obligation involved in carrying health insurance and old age pensions in a plan which again was described by the Minister of Finance this morning as an integrated whole which must be examined as an integrated whole, he made no mention of the fact that to carry out those obligations the Dominion government is going to impose an over-riding income tax on all incomes of from 3 to 5 per cent? No one now questions that fact. Also it would be well to mention in regard to that, that part of the cost which must be borne by the provincial government if it is to carry out the plan, which, as I said before, and which, as I repeat very emphatically now, was contained in the printed proposal of August 6 and has remained there ever since, and has been repeated, is the proposed annual registration fee which by every taxing authority could only be described as a poll tax, and which on the basis of the figures worked out by the Economic Committee will be, in the case of Ontario, if this plan is carried out, \$12—a poll tax of \$12.

Let me make it quite clear that this is not raised by way of criticism of the proposal of health insurance or of any other social measures. I am simply asking that in discussing this matter all the cards be put on the table. One of the reasons we agreed last week that we would come out here into open session was so that the people of Canada, whom, collectively, we who are around this table serve, would know exactly what it was that was being discussed and what the obligations were which they would have to assume in relation to many of the attractive promises which are being made to them.

My reasons for bringing this out is Mr. Ilsley's statement that this plan must be regarded as an integrated whole, according to both his statement and the statement of the Prime Minister. Then let it be regarded as an integrated whole, and let no Canadians think that they are going to gain any advantage out of these suggested health grants or proposed health measures or old age pensions unless they are at the same time ready to accept, on the one hand, an over-riding income tax on all incomes and, on the other hand, a poll tax of from \$10 to \$12. If they want that, then at least they are able to say so in relation to a complete integrated factual picture. I only point that out when we are discussing this, as we are now, in the light of Mr. Ilsley's review and, may I say, emphatic refusal to advance from the position which the Dominion now occupies. I say that this integrated picture must have no blind corners and that the people who are being told of the advantages of these health measures must also know what those measures are going to cost.

Let us see exactly what those proposals do mean. I referred this morning to what I can only describe as another joker. First of all we were given the appearance of a \$3 raise which amounted to less than 50 cents in actual return, subject to the fact that a minimum of \$15 per capita was mentioned. This morning a second joker appeared, that it is not really a \$15 minimum but a \$15 minimum multiplied by the population of 1941 or 1942, whichever is the larger, and if that minimum were to be invoked then you would require to divide your total, worked out on the 1941 or 1942 basis, by the population in the year in which it is determined what the actual—not the illusory—minimum payment is. As I have pointed out, with the reasonable expectation that we have in Ontario of a rapidly increasing population it might well be a minimum, not of \$15, but of \$13, or even less, within the life of this agreement. I do not say it will be that because no one here can say what it will be. Remember, we have been warned by the Minister of Finance, and very properly warned—and every one should heed that warning—we have been warned publicly by the Minister of Finance on various occasions of the danger of inflation. Everyone here must have due regard to what inflation would do to any tax returns of any provincial government within the life of the agreement. It simply writes off automatically, on the 1941 or 1942 basis, the percentage of the inflation under the proposals made by the Dominion government.

Under the algebraic formula presented by the Ontario government that would automatically adjust itself.

I do not want to have anyone here impute to me the suggestion that there is going to be inflation. There is one way in which inflation can be stopped more effectively than in any other and that is for the Dominion government, which has much more influence on inflation, to cut out every unnecessary expenditure. That is where the danger of inflation can be met in the front line. Any influence that any provincial government could have on inflation in this country would be negligible compared with any substantial economies effected by the Dominion government—not by their balancing of figures here but in the Dominion government's normal administrative responsibilities.

There was another feature discussed this morning which I find it extremely difficult not to describe as the third and most important joker of all. The Dominion government, as I pointed out before, is setting up permanent obligations on a tremendous scale and then saying to us, the provincial governments: You must make it possible for us to carry out our promises although you were not consulted when those promises were made.

I said this morning that the veil was off, and I will proceed to explain exactly what I meant by that.

Since we met on August 6th last we have been discussing here a temporary three-year agreement. In a nutshell the proposals of the Dominion government were and are that if they are allowed the sole occupancy of the fields of personal and corporation income taxes and succession duties and the joint occupancy of other fields which they have entered during the war they will pay to the provincial governments an annual payment upon a basis related to a per capita dollar figure. As everyone sitting around this table knows, the emphasis has at all times been upon the temporary aspect of this agreement, and yet in the discussion this morning there must surely have been in everyone's mind for the first time a clear appreciation of the fact that we are not discussing a temporary agreement at all.

Let us take the arguments put forward by the Minister of Finance, and I must say that these arguments are before us for the first time to-day. Let us take the arguments of the Minister of Finance as to why the Dominion government should have the sole occupancy of the personal and corporation income tax fields. I naturally have not his exact words before me but in paraphrasing them I believe I shall be very close to what he said.

At one point he said: In this modern world a nation must have control over such taxes as income. Then he went on to say that the Dominion government is in the best position to use these progressive taxes. He said further that if, for instance, at some time in the future corporation taxes were too high, under any other system this might place a restraining influence upon the productive capacity of our industrial economy.

Then he made another and, I think I may say without offence, rather significant statement. He said: I am told by the National Revenue officials that it results in getting far more income tax than they would otherwise get. I am not prepared to take the statement of the officials of the Revenue Department. I am here as head of the government of Ontario and I hope there will be no implied offence when I do say that there has been just a little suggestion that officials have been regarded as omniscient in regard to some of the very things we are discussing.

There are other arguments which have been made in regard to these taxes, but not one argument that was made by Mr. Ilsley this morning for the sole occupancy of these tax fields—not one of them—was an argument which was related to the temporary occupancy of those fields. Every one of them was an argument which, if it is sound to-day, will be increasingly sound three years from now.

And so, unless I completely fail to understand the effect of what seemed to be a very clear statement, we are not discussing an extension of the temporary occupancy of those fields. We are discussing a temporary agreement with regard to other aspects of this matter, and then when we come back we shall be told: We have made an agreement but we cannot abandon these fields. We have no assurance that the government three years from now would vacate these fields and we have to remember that those arguments would have as great or even more validity three years from now, or they have no validity at all to-day. And it is in the light of this argument put forward now for the first time here in this open conference to-day, that even at the pain of repetition I must again repeat, because it is so much more significant now in view of these statements this morning, what Mr. Ilsley said at the time the provinces were asked to vacate these fields of taxation in 1941. These words must now be listened to and examined with due regard to the arguments he has put forward as to why in this modern world the central national government must have taxes of this kind. These are his words: "It is proposed therefore as a temporary expedient for the duration of the war only to ask the provinces to vacate these two fields. I should like to emphasize that this is not an attempt to get the provinces out of these tax fields permanently. Furthermore, it will be noticed that succession duties are specifically excluded from the proposal which is being made to the provinces."

Now, gentlemen, there is an extension of the field involved here. The provinces entered into that agreement in March, 1942, following the negotiations which came after statement in April, 1941. And every argument that was put forward to us this morning by Mr. Ilsley, whether it was intended that way or not, is an argument that makes it almost impossible to accept the proposition that at the end of this temporary agreement they would be prepared to vacate these fields. Now, again, so that I shall not be misunderstood and so that I cannot be misquoted by ignoring what has been said on other occasions here, I would like to point out that the Ontario government has said that it will vacate these two enormous tax fields of personal and corporation income taxes for the term of a transitional tax agreement but that if it is to make that tremendous concession, a concession directly opposed to the solemn undertaking of the Dominion government in 1941 and again in contractual and statutory form in 1942; if the province of Ontario is to make that enormous concession it must, if it is to retain any pretense of self-determined governmental responsi-

bility, have some other assured tax fields to which it can go. Mr. Ilsley on more than one occasion this morning in his rather flattering emphasis on Ontario's proposals, a discussion of which occupied about 80 or 90 per cent of all the discussion of the provincial proposals, constantly repeated the fact that the dominion government could not give up the minor direct tax field without direct compensation, leaving—I am sure not intentionally—the impression that the Ontario government was not ready to take the value of these taxes into consideration in a determination of the grant of money it was to receive. Now, that is not the case. At a meeting of the co-ordinating committee in January, and again last week, the Ontario government made it clear that it would arrive at an arithmetical term of measure for the annual payment for the vacation of these tax fields with a due regard to the value of these taxes and when I was asked what our formula meant I said that our formula must have regard to our budgetary requirements, the value of the tax fields we will hold and the responsibilities we must assume. And that is our position. May I just point out why the government of Ontario must have some other assured fields of taxation in addition to the return from the annual payment offered for the occupation of its sphere of these major tax fields. The minimum annual payment offered the Ontario government by the statement here by the Dominion government is \$58,260,000. The Ontario government during the life of the transitional agreement must prepare for a budget of \$200,000,000 and I would point out that that would be on a proportionate basis approximately what the province of British Columbia is budgeting for now. We have a minimum compensation of \$58,260,000, and for the remaining \$141,740,000 we definitely require a tax field unless the government of Ontario is to become a clamorous beggar coming down here periodically with its argument ready to support increased advances from the Dominion government. And, again, I commend to the Minister of Finance the warning of Sir Wilfrid Laurier in regard to a practice of that nature which would force this by the agreement and leave this or any other government without some free tax field.

Now, might I in that respect again repeat with the utmost emphasis that Ontario has come here to ask nothing. Ontario has an agreement dated March, 1942, under which the dominion government undertook to return to the province of Ontario tax fields which today would be worth to Ontario well in excess of \$100,000,000; and for the concession of that we are to receive \$58,260,000. Now, if that is magnanimity then my understanding of the ordinary use of the term is quite wrong. But there is no question of magnanimity. It is a question of vigorous government within the federal system. The Ontario government has said that it will vacate these two enormous tax fields in which its contributions will be such a heavy share; and may I once again repeat that side by side with that it says that it recognizes its advantages and is anxious to make due compensation, and that it is prepared to do that, not on a basis dictated by the province of Ontario but on a basis agreeable to them. But if it is to do that the province must have an assured tax field. It is not sufficient for the province of Ontario to be told that it is not the intention of the dominion government to occupy a field, or that it will not even increase the field it now occupies in these minor fields unless there is an emergency. Now, gentlemen, let us recognize one thing; that a basis has not been sufficiently discussed here. If that statement were accepted then the dominion government could increase the taxes any day it liked, and I notice that the emergency we are talking about is not the sort of emergency that we have before us now. Gentlemen, either there is an emergency in Canada today, or the Emergency Transitional Powers Act would have to be upset by any court in Canada, because that act rests upon recognition by the court of the existence of an emergency. If there is no emergency there is no validity to that act. If there is an emergency, then under the proposal

made by the dominion government, that emergency would be such as to make it possible for them to disregard any limitations of that nature. I do not suggest for one moment that that is the intention.

Now, for the moment, let me call your attention to one thing which has been pointed out here, that no government is permanent. Some of us I know have fairly substantial majorities, but no government is permanent; none ever has been, none ever will be as long as we retain the democratic system. Therefore the agreement which we are ready to sign must be an agreement with the dominion government, not with the Canadians who, for the time being, are the members of a dominion government; the same is equally true of the government of Ontario or of any other government here. No representative of any government here can be accused of any slight by pointing out the dangers of the grounds on which such individuals may find themselves by reason of being in office at the present time. Any matter which presents the possibility of abuse in any one of its phases, is an agreement which no government here has any right to sanction. Therefore there ought to be sufficient safeguards against a further extension of governmental fields which would nullify the powers of provincial government within those fields.

Mr. Ilsley this morning, with some suggestion that I had overlooked it, pointed out the difficulty there would be in really carrying forward the principle which we had emphasized, the principle that we must avoid double taxation in every field. That is a principle we stand by. We want it to be thoroughly understood that we seek to avoid double taxation in every case and form. And as Mr. Hart has so ably pointed out, in the legislature of British Columbia, our original proposals, which had to do with that very matter, were approved in principle. We have said with emphasis that we stand for the avoidance of double taxation. Now, gentlemen, if that argument is sound in respect to corporation and income tax it is equally sound in regard to every other form of taxation, and it is a principle which must apply with equal force in every way in which it relates to taxation by the federal authority, and for a time must be the special concern of the federal government. Further, the Canadian taxpayer has long recognized that as a guiding principle in taxation, and the Canadian taxpayer is looking for a reduction in taxation. And in that connection Mr. Ilsley suggested that I had ignored one rather important field in which the principles we had advanced could not be achieved. He said, "What would we do in the case of liquor?" We told Mr. Ilsley that we do not impose one cent of tax in regard to liquor. There is no duplication there. Taxation on liquor is imposed entirely by the Dominion government. We are in the business of handling liquor, which our people buy, but there is not a copper of Ontario tax in any bottle of liquor or other alcoholic beverage purchased by the people of Ontario. So we have no duplication to avoid there, because it does not exist. We do not need to be concerned about it because as a government we do not intend and we have no thought of imposing any separate tax by the Ontario government. I suggest that where Mr. Ilsley is wrong is in the suggestion that simply because the government of Ontario is in the business of selling alcoholic beverages and because it sometimes makes a profit on the operation, that profit constitutes a tax. I am sure the Premier of Saskatchewan will agree with me that that is a quite proper form or method of doing business and that any gain or profit which comes from the operation of that business is not a tax; and I am sure there are others who find themselves in a similar position. We are not, as I said, imposing any tax on liquor in the province of Ontario, and there is no duplication there. The proposal we have made would avoid double taxation in every field, and I think that the dominion government in spite of its fairly emphatic language this morning will still accept the basis for our concession of these taxing fields to them which will leave us some measure of governmental responsibility and economic self-determination while at the same

time relieving the taxpayer by the avoidance of double taxation and the duplicate handling of forms. May I say that all these extra people who must be sent out from Ottawa to deal with those who pay the taxes, may be needed under the government's proposal in order to carry out its responsibility, but the people of Canada want to see money saved, and that is one direction in which an economy can be effected; and if they want to know one way in which an economy can be made, may I tell them that it can be done very effectively indeed by doing away with these extra collectors and inspectors, people who have been put there as the result of the exigencies of war and are being carried on for other purposes in connection with proposed new activities.

I will now refer specifically to some of the points which were discussed by Mr. Ilsley, and very briefly, I hope. Mr. Ilsley waxed rather eloquent on the fact that it had been suggested that the dominion government should not have to assume a loss of \$60,000,000 or \$70,000,000 from these tax fields, and that they were worried about the possibility of such a loss. No one is for a moment suggesting that they should not be worried, about \$60,000,000 or \$70,000,000. I believe they should be much more worried about every dollar. But what was pointed out was that that was the whole total of these six tax fields that we asked them to vacate and leave to us as a measure of tax freedom and avoidance of double taxation. They said they could not consider that. He went on to balance the value of these six taxes, succession duties, parimutuels, amusements, electricity, security transfer and gasoline. We pointed out that as against a field on which they collected \$1,555,000,000 last year, less the \$17,000,000 they collected from the whole of Canada for succession duties, and one or two other items, they collected from those six fields which we should have had, just over \$70,000,000. I am not suggesting for a moment that they should not be concerned about \$60,000,000 or \$70,000,000. I certainly would not want anyone in Canada to go away with the idea that the representatives of the government of Ontario or of any other government, in the meeting of the Co-ordinating Committee, had made any such suggestion.

Now, we have put before this conference proposals which I believe are clear, which I believe give the dominion government all the money which it needs to carry out all its heavy obligations. There is, as I pointed out, no reason why the proposals we have made do not mean just as much money directly into proper governmental administration as would the proposals of the dominion government. Now, I must say that I do not agree that anything that has been said this morning could be taken to indicate that there is any reason why these proposals should not be worked out. I think, on the contrary and having regard to what I have pointed out, and having in mind the program which has been outlined to us then it is obvious from their argument that it is not a temporary agreement as far as these fields of taxation are concerned. And I say that in view of the arguments put forward by Mr. Ilsley, that he could not reasonably make such a claim because the same argument would have the same force and effect at the end of three years. He suggests that we give up these fields because, in this modern world the central government must have these tax fields.

Now, I am not brushing aside the question of validity, of the language that he used, or the argument, in urging the acceptance of their offer, and that we give over during the period of the transitional agreement these huge tax fields in return for such annual payment. I say that we have now seen added reasons why our proposals put forward here on Monday should be given careful consideration. I have referred to the proposal that with the signing of a transitional agreement steps be taken immediately through the medium of the co-ordinating committee, the economic committee, and any other advisory bodies which may be suggested, to examine the whole tax structure and to lay the foundation for a tax system which will be simpler, will be more in the interests,

will be more to the advantage of all the people of Canada and will provide to every government—and I repeat, to every government—assured fields of taxation with whatever supplementary assistance they may require, so that when we emerge from the transitional agreement there will be no further argument about matters of this kind.

Having said that, I say that I believe that our proposals offer an opportunity for an agreement right here and now. As I pointed out before, in so far as Quebec, British Columbia and Nova Scotia are concerned, there is only one dividing point, and that is succession duty. As for the rest of us, so far as I can observe, we are on comparatively common ground; certainly, ground so uniform that the only approach needed is for bodies concerned to be prepared to accept the weight of argument one way or the other and find a solution. The one hope of agreement and the one hope of a continuing confederation within the concept of those who brought this nation into existence is to leave some measure of real tax power to the provinces. One significant remark was made here during the course of our discussions, that during the early years of confederation the plan worked well, and it was only in more recent years that difficulties arose. I suggest the possibility that these difficulties were directly connected with the dominion government's entering the provincial taxation field. You remember that they went into it for the first time in 1917, but it has only been comparatively recently that they have gone very extensively into it. I am inclined to think that the basis for the present difficulty lies in the invasion of the provincial tax field by the federal authority; at least, I think I am right in saying that it was the suggestion of one of the provinces that the best basis or hope for a solution would not be found in the dominion government continuing to occupy these tax fields.

In conclusion, Mr. Chairman, may I say that the proposals we have put forward are put forward in no arbitrary or dictatorial attitude or spirit. We have heavy responsibilities, as has the dominion government, and in reaching an agreement we must have regard to the traditional rights of the people of Ontario.

Mr. DUPLESSIS: Mr. Chairman and gentlemen, this conference has been going on at different periods since last August. No one could say truthfully that the province of Quebec is not willing to co-operate in finding better ways or better methods, if possible, to achieve the ends and the aims of the confederation pact. We believe in the federal system. We have special reasons for believing in the federal system, and I need not repeat the arguments which time and again throughout the period of the conference I have placed before the members of the co-ordinating committee and, also, during the plenary and open meetings of the Dominion Provincial Conference (1945-1946). To govern is to foresee and no government has the right to do anything which does not take into full consideration the possibilities of the future; a government with an ordinary sense of foresight and vision should keep foremost in its thoughts the everlasting benefits which the province and its people can derive from a certain situation. Temporary payments, or so called generous subsidies, cannot compensate for permanent rights, and once those permanent rights are impaired or abandoned the results may be disastrous. We are still willing to co-operate. Co-operation is the contribution of those who wish to work together for the prosperity of the country, according to justice and fair play; complicity is the action of some one who contributes to an injustice or to the violation of a sacred covenant. The province of Quebec is always in favour of co-operation, always against complicity.

This morning we heard from Mr. Ilsley, an eloquent speaker. We noticed that he was a little bit angry; he gave the impression that he had lost his temper just a tiny little bit. His statement was of a—take it or leave it nature—

apparently, he wished to force upon the conference certain ideas of his. He even went so far as to talk about the federal powers re banking and public borrowings and his declarations tend to convey the impression that Ottawa possesses exclusive rights in these fields. In short, unwittingly, I'm sure, he nevertheless expressed, shall I say a veiled threat.

Mr. Chairman, as far as Quebec is concerned, I will forget this attitude of Mr. Ilsley; even more, we understand it, he is overworked, and he is doing his best; his responsibilities are very heavy, working day and night; he is worked to exhaustion—to the point of convincing himself and trying to convince others that the federal proposals, which lead to centralization, do not lead to centralization—a very exhausting job I will admit, and I understand quite well that a man called upon to do this job has reasons to be nervous and I fully realize it to be a nerve-wrecking job. I do not doubt for one minute his sincerity. He comes from a very interesting province; and I may say right away, that I, for one, always thought and still think that the Maritime provinces have real grievances and that they did not get from Confederation, what Confederation was meant to give them. As far as Quebec is concerned we are willing to work hand in hand with the Maritime provinces to help them get what they rightly and justly expected of Confederation.

The Maritime provinces contributed a lot to the weal of this country, in every walk of life and in every human endeavor; they contributed very remarkable teachers, doctors, merchants, business men, illustrious statesmen, etc. etc. Of course, I won't refer to the present men in politics because I do not wish to offend their modesty; but I sincerely think that the Maritime provinces have real grievances and I want to assure them on behalf of Quebec, that they can always rely upon the full, hearty and friendly cooperation of Quebec to try and find ways and means to give them their full and generous share of justice which has been denied them for so long.

Mr. Chairman, in this great family, this great Canadian family, it is the duty of each and every one of us to try and understand each other one. Those who have, should not be criticized because they have and those who are less fortunate should be understood and helped in a brotherly manner. This is the only way to be fair and the only way to meet our special Canadian problems with a real Canadian mind and a real Canadian spirit.

The federal proposals which are made to us were apparently modified, but not for the better in many ways. Mr. Chairman, they unmistakably point towards centralization. Centralization would be the death of the confederated system. I do not doubt the sincerity of the federal authorities but I must see and face the results of the federal proposals.

Obviously the confederation system is based on decentralization. Innumerable statesmen of different races, political faith or religious creed, ever since Confederation, have recognized the fact that a federal system is the best for Canada, owing to its vast area, the multiplicity and variety of problems, the mentalities and traditions of its population. So essential is the federal system that every one in this Conference recognizes its necessity for this country of ours. Accordingly, let us not do anything which would hurt the system or tend to make it disappear.

The federal proposals cannot but lead definitely to centralization. The power to legislate is dependent upon the power to levy taxes, and the federal proposals practically take away from the provinces the power to levy taxes. In my province, in particular, we are very jealous, and rightly so, of our rights to legislate, for reasons which are evident.

Few years ago the world marvelled at the extraordinary feat accomplished by a French-Canadian woman of Ontario who gave birth to quintuplets. Well, centralization is more prolific. It does not give birth for the benefit of mankind

but it gives birth to thousands of unbearable children, having all the characteristics of little Hitlers, who are enemies of democracy and parliamentary institutions and who are politely called bureaucrats. We do not like this kind of motherhood, and I think Mr. King will agree with me that this is not the kind of a family we would like to have.

The issues of this Conference are not racial issues; they are national issues; it is bureaucracy against democracy; parliamentary institutions and prerogatives against bureaucrats.

In Quebec we believe in democracy; we believe in parliamentary institutions, and these cannot live if the representatives of the people do not have the financial power to implement their legislative and administrative prerogatives.

By its proposals Ottawa asks us for the monopoly of the income tax, of the corporation tax and of succession duties, very rich fields of taxation in the provinces. This morning Mr. Ilsley said that in his opinion the provinces had no priority in these fields of direct taxation. For very many years, from 1867 to 1917 the provinces were alone in the field of direct taxation. In 1917, during the First World War, the then Minister of Finance, Sir Thomas White, thought that it was appropriate to enact a federal legislation establishing the income tax. Briefly, for over half a century, the federal authorities left the field of direct taxation to the provinces, giving to the Constitution an interpretation which tends to establish provincial priority in these fields of taxation.

Confidence is the very basis of stability; it is the essential foundation of real Canadian unity. Let us look at the records. In 1867, the four pioneer provinces were given subsidies to compensate them for the excise and customs taxes given by them to Ottawa. By its proposals of today Ottawa is brushing aside these subsidies. Confidence is shaken accordingly.

In 1917, the Union Government of the time imposed income tax with the clear promise that they would get out of this field after the war. Ottawa did not, and, again, confidence is shaken.

Under Liberal and Conservative governments, it was argued three times before the Privy Council that Ottawa had jurisdiction in the important matters of insurance. Three times in succession the Privy Council decided that these matters were coming under the provincial jurisdiction. Nevertheless, Ottawa remained in the insurance field against three clear judgments of the Privy Council. Again confidence is shaken.

In 1942, there was a Tax Agreement about which I expressed many times my opinion, opinion which I do not think it is necessary to repeat here. It was then specifically and emphatically agreed that at the end of this war Ottawa would give back to the provinces their rights of taxation concerning personal income and corporation taxes. This agreement of 1942 is now encroached upon by the federal proposals and, again, confidence is shaken. Moreover, Mr. King will remember that at the request of his government, a few years ago, the Privy Council was called upon to decide what were the powers of the federal and provincial governments in connection with social legislation. The Privy Council decided definitely and clearly that it was a matter of provincial jurisdiction. Nevertheless, Ottawa trespass again on provincial property and the federal proposals encroach upon provincial jurisdiction. Again confidence is shaken.

In the light of these experiences, it is only fair for the provinces to take definite, clear, precise precautions. This is what we want. We realize the concern of Ottawa, we are willing to collaborate, but again, I say, not to be an accomplice. We are willing to cooperate within the framework of the fundamentals of the Constitution. Action speaks louder than words. We have to think today of tomorrow, of the future in the years to come.

During the war several provinces suspended essential public works. In the province of Quebec alone, on account of the war activities our highway suffered from 4 to 5 million dollars damage to which we should remedy without delay. Health, education, agriculture, colonization will necessarily entail heavy expenditures, expenditures which we have to take care of.

According to many experts we have consulted and after having studied the federal proposals there is but one conclusion to be drawn: the present federal proposals amount to the most definite attempt at centralization, to one of the very most dangerous assaults against our federative system. The uncompromising attitude taken by Mr. Ilsley, speaking for the federal government, is only compromising the very foundation of Confederation. This country needs stability and certainty. The federal proposals would be conducive to instability and uncertainty.

Mr. Chairman, I do not blame Ottawa for thinking they are the best government in the world; after all, we all have illusions. I remember having read, when I was young, a book from a French writer, in which the author was criticizing the Premier of France. The writer was saying in substance: the surest and best way to be many times a millionaire overnight would be to buy the Premier of France at his real value and sell him at the value he thinks he has. There is no monopoly as far as administrative and legislative ability are concerned. The provincial administrations are fit to deal with their own affairs and so Ottawa with its own affairs.

Mr. Ilsley spoke about a policy which would amount to "Balkanize" Canada. The same expression was used before by some others, but no matter who uses the expression, I do not think it is the appropriate one. There is no parallel between the Balkans and Canada, either with respect to population, mentalities and aspirations, and besides that we are not under the centralized Soviet regime, such as the Balkans are.

Why not, Mr. Chairman, have a general get together in a real Canadian way, not in an arbitrary way, for we sincerely wish to cooperate and collaborate, but we will never be an accomplice when it comes to wrecking Confederation. It would be against my precise popular mandate to agree to the federal proposals as they are, because we are sure that, sooner than later, they would inevitably lead to disastrous centralization. Let Ottawa be reasonable and fair. Let Ottawa forget threats and arbitrary methods. We are ready to agree to a clear, precise, positive and transitional agreement to which we have referred in our brief and again during the sittings of the last few days.

If the Ottawa proposals are in the nature of take it or leave it, I will leave it and take my train back to Quebec, but I hope that Ottawa, after due reflection, will take a fairer, more appropriate and more cooperative stand.

Mr. MACKENZIE KING: There is no order of speakers. All right, Mr. Macdonald.

Mr. MACDONALD: I wish, Mr. Chairman, to say a word about a part of Mr. Ilsley's remarks this morning wherein he dealt in a general way with the position the provinces would be in if this agreement were made along the lines which the dominion wishes. I gathered that he rather took objection to some statement of my own made the day before yesterday as being too strong, when I had expressed the view that provincial life and public life would be debased and degraded, that political independence would vanish and provincial autonomy would be gone, provincial dignity disappear. Now, Mr. Ilsley rather thought to give an impression to the meeting that these results would not follow, would not be likely to follow what was contemplated in his proposals made. After all, there is little diminution in provincial powers.

At Confederation, as it has been said many times around this board, as we all know, the right to direct taxation was given to the provinces, and the dominion was given the right to levy and collect money either by direct or

indirect taxation. Under Confederation the provinces at least had the right, they had the legal right to use direct taxation in any form or in any field. There can be no question about that, but under these proposals, the provinces are to be denied the right. They are to be denied the right to impose direct taxation in the income tax field and in the corporation tax field and it is suggested as being desirable, although not insisted upon to the limit, nevertheless, it is suggested as desirable that the provinces should also abandon the succession duty field. Now, there is no use in saying that the provinces are giving up nothing. They are asked definitely to give up those two great fields in which their right to levy taxes has never been questioned and could not be questioned, those fields of direct taxation as has been the practice of fifty years, whatever the legal position was. I am not here to argue that the provinces had a priority in direct taxation. I am not here to argue against the dominion's claim that it can go into any field. I believe it can, but I am not here to say that. For fifty years the dominion respected the implied bargain made at Confederation that direct taxation would be left to the provinces exclusively.

But not until the passage of the first Income Tax Act in 1917 that that practical principle was violated, and when it was infringed upon Sir Thomas White, the then minister of finance, was careful to say that he knew what he was doing and that he was stepping into a field that had hitherto been regarded as the sole field of operation of the provinces and that he hoped that this measure which was then introduced would be but temporary. There is a clear indication of what was in the mind of the minister of finance at that time. There is no doubt, Mr. Chairman, that under these proposals here the rights of the provinces are being curtailed. Not only are the provinces being asked to get out completely from two fields where they have a right to be but they are also asked to share practically every other field of taxation in one way or another with the federal government, such as the gasoline tax. They are asked to share succession duties. And that is the best we can hope for, to share. They are asked to share these taxes until finally the only field to which the provinces can revert for taxation, under this plan, are real estate and automobiles in the hands of the owner.

Now, it has been said here this morning that the reason automobiles and real estate were mentioned so specifically here is because those were the only two items of property to which the attention of the Dominion government was directed in my question of November last. But there is a question, Mr. Chairman. I put several questions to the Dominion government at the meeting in November. The first question was this, whether the Dominion government now indicates that it will go no further into the field of direct taxation than its present proposals, or, to put it in another way, what fields of taxation would be left to the provinces exclusively? Now, that was a simple question and I thought that the answer of the government to that question would be most clear. I wanted to know what fields of taxation were to be left to the province of Nova Scotia, so that I might with my colleagues be able to determine just what the Dominion proposals meant. Now, the answer of the Dominion government was this: the Dominion is not willing to make general commitments which might hamper in any substantial way its future budgetary policies. The Dominion does not contemplate entering such fields as the taxation of real property or the taxation of motor vehicles in the hands of users, the examples suggested by Mr. Macdonald. Those were only examples. But the Dominion government has never at any time gone any further than to say that it will not tax real estate and that it will not tax automobiles in the hands of users. Now, if there are any other items of property, if there are any other fields of taxation which the provinces have regarded as their own fields of direct taxation, and if the Dominion does not contemplate entering those fields, I say the Dominion should so state. May I repeat what I said the day before yesterday, the only

fields of taxation that are left to the provinces are real estate and automobiles. Real estate traditionally is the field of municipal taxation, at least it is in most of the provinces. As a matter of fact, it was so understood at the time of confederation; it was understood, I believe, that the provinces themselves would never have to resort to direct taxation. They were told that by those who were so eager to see confederation formed. They were told, why you have your public domain, you have your minerals, your forests, your elements of that sort, and you will no doubt apply licences and collect fees from those elements; that, together with a subsidy from the Dominion will provide you with the money necessary to carry on local government; real estate should be kept for the municipalities. Now, that was the view at the time of confederation. So far as the province of Nova Scotia is concerned, that is the situation, that the right to tax real estate rests in the municipalities. To say to the province of Nova Scotia that you can tax real estate is to say something that has no significance whatever so far as provincial budgets are concerned.

Now, something has been made of the fact that at confederation the privilege was granted to the provinces of the fact that in most cases—in the case of Nova Scotia at any rate, and in the case of New Brunswick also, I believe—the greatest source of the provincial revenue would be in the form of subsidies granted by the Dominion. The subsidy granted by the Dominion to the province of Nova Scotia at the time of confederation—and I believe that Mr. Ilsley is quite familiar with this—constituted some 60 per cent or 69 per cent of its revenue. But I would point out this fact, that the Dominion proposal or plan to substitute or grant the province a subsidy of a minimum of \$181,000,000 is only about 10 per cent of what is generally considered to be a typical post-war budget. As I understand it, nobody can see very well how the Dominion could get around after the war with its commitments, which the Minister of Finance outlined this morning, commitments in respect of armed services, in respect of veterans, public debt and the ordinary business of the country. Nobody can see how that can be done in any sum less than billions—three or four billions someone said. Now the \$181,000,000 subsidy to the province today is just about 10 per cent of that figure, whereas at confederation, when the Dominion in that first year had a budget of \$15,000,000 yet they gave 20 per cent of that small budget to the provinces in the form of subsidies; in other words, a percentage twice as great as what this government proposes to do.

Something was said as to the advantage of having subsidies at a fixed amount under this plan. The Premier of Manitoba yesterday made a strong argument that it was a good thing because it meant a greater measure of financial independence to the province than our subsidies which are based on some such principle as fiscal need, perhaps. Now, what I should say, Mr. Chairman, is this: I do not want to do away with the idea of these fixed subsidies. I think it is a splendid thing to have a fixed subsidy, but we have had a frightening experience of fixed subsidies in this country, and one result of that experience is that these fixed subsidies have been varied. At confederation there is no slightest doubt in the world that they thought then they were writing a bargain which would endure for a long, long time; and in that case Nova Scotia alone—and Mr. Ilsley knows as well as I do about it—it was only a year after, the 1st of July, 1867, that Nova Scotia was receiving some extra subsidy. They had raised an agitation for better terms and went to England to seek a repeal of union, and what happened then was the beginning of a rather bad practice which some of the provinces got into—when they put up a holler (to use a slang expression) they gave them considerable aid to keep them quiet. At any rate, they gave additional aid to Nova Scotia—I think the payment was actually made in 1869, but it was back-dated to 1867—they gave them a special subsidy amounting to some \$80,000 over a period of ten years. New Brunswick, I believe, got some similar treatment. Then the

amount was increased further in 1873, and again in 1884 the amount of the subsidy was increased to all the provinces then under the British North America Act. The commission which sat in 1926 further increased the amount of the subsidy to Nova Scotia, and the same thing was done again as a result of the White Commission in 1935, who increased it once more. Therefore, you have these variations since confederation in what was thought to be a fixed and immutable financial problem. So the idea that subsidies are going to be fixed is precisely the idea that they had at confederation, and precisely the idea to which it has been found impossible to adhere throughout a period of 80 years. I must say frankly that I think there is a very significant advantage to the provinces in variable subsidies, because of the fact that subsidies do grow up as the national production increases. For that reason any per capita allowance, or any allowance based on capitation of any kind has not proven to be satisfactory, in my judgment, and in my reading of the history of this country. This is the very same thing, except that there is that aspect of having the subsidy raised as the national production raises. I want to see the grants provided for under the agreement, but I should like to see the principle of fiscal need—and I gathered this morning that the Minister of Finance speaking for the government had definitely stated that he could not consider that principle; he raised some arguments against it, one of which was that it would involve some sort of oversight by the dominion over the provinces. I have no fears in that regard, and I do not think any of the provinces should have any fear in that regard. In the event, under the agreement, of a situation arising where its own revenues are not sufficient to meet its needs I see no reason why it should not be able to go to a commission and state its case; and if it convinces that commission, then that commission could recommend to the federal government that special consideration be given that particular province. I want to see these grants on this basis; and I want to see in addition to that, if the time should come (it may never come, I hope it will never come) that we in Nova Scotia would have to ask for anything more than what we apply for here plus our own revenues, which we could raise by ourselves; but if the time ever should come when these means would be insufficient, then I think we should have the right to apply the principle of fiscal need as an added principle to the plan we had advanced.

It is curious how difficult it is to prophecy very far in advance in matters of this kind, that is why I want to see some flexible principle used, such as the principle just advanced. I have here the views of Sir Alexander Galt, no small man, a very great man, a very great Canadian, and a very great financial man. Sir A. T. Galt said this at the time of confederation; "there will be available in the whole of the provinces of Canada a sum of no less than \$1,043,015. It must, I think, be admitted that when those charged with the administration of affairs in Upper and Lower Canada exceed this amount they will be guilty of a degree of profligacy and extravagance for which a speedy remedy will be found by the people." Here are the provinces today spending, any one of them I think, some \$200,000,000 every year. This statement was made 80 years ago, and it shows, as I say, how very difficult it is to foresee the future. It also shows the difficulty one encounters with a fixed subsidy or tax. That was the revenue available at that time; they said that would be sufficient for the purposes of the provinces. Something was said about the fathers of confederation and their wisdom in giving to the dominion the widest possible power, and that obviously would apply particularly in a time of national emergency such as the war through which we have just come, and we have seen the application of that principle in what happened during the war. In the event that we should be faced with another national emergency, I suggest that the argument advanced by the Minister of Finance is not valid at all. I do not think it matters where the power to tax may be, if another war should come the provinces would do

what they did in the last war, give to the dominion any and all powers that it needed for the effective prosecution of that war. I do not think there is any doubt about it. And I do not think that the war should be used—I do not say this in any critical way, but it is an argument which can be made—I do not think that the war should be used somewhat in the nature of a club over the heads of the provinces and on the other hand something in the nature of a beautiful article to dangle before the people of this country and say, now we have agreed to what these provinces want when a war comes, while the country may be ruined in the discharge of the obligations which face them as a nation. I am sure that the province of Ontario, which gave its buildings so generously through the good offices of Mr. Drew here, also through the good offices of both Mr. Drew and Mr. Hepburn, I am quite sure if the same necessity were to arise in the future the same thing would happen again in Ontario, and in every other province. So I have no fear whatever as to what would happen if there were another war. The provinces would do everything that they could do to ensure the effective prosecution of that war by the federal government.

Now, the position as I understand it is this: the dominion wishes to have for a period of three years the exclusive rights to income and corporation taxes; and as I understand it, nobody of the nine provincial premiers seriously objects to that; further, the dominion would like to have exclusive rights to succession duties, and if worst comes to worst, I understand it is prepared to divide that field with the provinces. As to the gasoline and amusement, and some other fields of that kind, it is prepared to bargain. It feels it must have a certain amount of money, and no doubt it must, and if it can get the money in some other way then I understand it is prepared to bargain with the provinces. On a basis of that kind, if I interpret the rules aright; on a basis such as that, I do not see why there should not be an agreement brought about between the dominion and the provinces. I do not see that the position is impossible. The dominion appears to be standing firm on its proposals and the provinces are standing firm on their views, but the gap is not unbridgeable. I believe it can be bridged by goodwill and common sense by all parties.

MR. MANNING: Mr. Prime Minister and gentlemen, this is an occasion which obviously calls for plain speaking and a frank expression of our reaction to the address delivered this morning by the Minister of Finance. Mr. Ilsley's comprehensive address might well have been reduced to one simple word of two letters; No! For that reason his statement conveyed much more than just an unsatisfactory negative answer to the considered opinions expressed around this conference table by the provincial premiers. It conveyed an attitude of uncompromising rigidity on the part of the dominion government that is indefensible in the light of the circumstances as they are.

In my statement of yesterday I deliberately and purposely refrained from rigidity when dealing with those features of the dominion's proposals which most certainly are not acceptable to the government of Alberta. But, Mr. Prime Minister, that did not mean or imply, that our objections to the dominion's proposals are any less real or definite than the exceptions Mr. Ilsley has taken to the proposals and suggestions advanced by the provincial premiers. Our objections to the dominion proposals are very real and very definite. In fact reference to our two formal submissions to this conference and to the co-ordinating committee will reveal a very much greater measure of difference between our position and that of the dominion, than exists between the dominion's proposals and those submitted by any other province. I want to emphasize that fact and I want it written into the permanent record as a very definite and important modification of Mr. Ilsley's statement that Alberta, among other provinces, is prepared to accept the dominion's proposals as they stand. Let me repeat, we do not regard or accept the dominion's present proposals as a solution, or even

as the basis of a solution to the problem of dominion-provincial relations. They contain features and embody principles to which we are so diametrically opposed and we cannot accept them under any circumstances other than as the basis for a temporary, interim, transition arrangement, to afford one more, and perhaps, one last, opportunity to save confederation and our federal system by working out a solution that will be satisfactory and permanent because it will embody those fundamental principles and basic requisites necessary to enduring democratic responsible self-government.

As I said, I deliberately and purposely refrained from rigidity in dealing with these important issues. Why? First, because I believe, as I said yesterday, that agreement at this stage is necessary in the interests of Canada, and second because an attitude of uncompromising rigidity on either side makes agreement absolutely impossible when there are conflicting points of view which must be reconciled. This is merely stating a simple fact which must be self-evident to all. Having acknowledged that fact, and having acted upon it by refraining from arbitrarily rejecting the dominion's proposals notwithstanding the fact that I am diametrically opposed to many of its provisions,—having taken that position, for the reasons I enunciated yesterday—at the same time I urged upon the dominion officials the importance and the necessity of them adopting a like spirit of compromise in the best interests of all concerned, to make possible the successful conclusion of this conference. May I say that Mr. Ilsley's emphatic and completely negative reply this morning was a surprising and a bitter disappointment.

In his endeavour to justify the rigidity of the dominion's present position the Minister of Finance centred most of his argument around one particular point, the financial inability of the dominion government to consider any modification of its present position if such modification involves any additional cost to the dominion treasury.

Mr. Chairman, with respect to that argument, I would like to make three observations. First, as has already been pointed out by others around this table on various occasions, it is not a matter of the dominion government giving the Provinces some money which belongs peculiarly to the Dominion Treasury, it is primarily a matter of which government should properly have the revenues accruing from those fields of direct taxation which are in dispute. May I say, as I did yesterday, that the province of Alberta agrees fully with the views expressed by practically every premier at this conference that in the light of existing circumstances and particularly in the light of circumstances as they will exist, under the proposed agreement, at least the minor fields of direct taxation which the dominion government entered during the emergency of war should now be returned to the provinces for their exclusive use without any corresponding offset from the financial compensation to the provinces as set out in the dominion's consolidated proposals.

My second observation with respect to Mr. Ilsley's argument is this. If it is a matter of an inadequate aggregate amount of money, then let the Minister of Finance be completely frank about it and tell the people of Canada that money, rather than human and material resources is to be the measure of our post-war economy. But I want to say that I, for one, will never accept that as an explanation, and I am equally sure that the people of Canada will not accept it either.

My third observation is this. I find it impossible to reconcile the position taken by the Minister of Finance in this matter with the known facts of the past few years. After all, the best measure of what can be done is what has been done; and I would like to remind the conference of three things which bear very directly on this point. The first is the record of Canada's war financing. During the years of war this country financed colossal and unprecedented

expenditures. It is true, it incurred deficits running into two or three billions of dollars a year, but the people of this country were assured that it was well within the capacity of the Canadian economy to carry that load. At the same time, and while the war was still on, the dominion government found it financially possible to institute a system of national family allowances involving an annual expenditure of some \$250,000,000 per year. That, Mr. Chairman, as I say, was while the war was still on and while the dominion was at the same time having to assume tremendous and unprecedented wartime expenditures. In addition there is a third point worthy of note. The government of Canada has during this same period found it possible to make gifts to Great Britain and to other nations amounting to some \$4 billion. Now, Mr. Prime Minister, I want to make it abundantly clear that I am not in any sense criticizing any of these three things. I am merely pointing them out as accomplishments on the part of the government of Canada in the financial field during the past few years, and stating that I find it impossible to reconcile the dominion government's fear of bankruptcy resulting from it vacating minor fields of direct taxation which, in the aggregate, amount to \$50,000,000 or \$60,000,000. I say I find it impossible to reconcile that fear with the known facts which I have just enumerated.

It should be also pointed out at this stage, that under the dominion's proposals, a very substantial portion of the new financial obligations which it will assume, it proposes to offset by means of new levies, and new taxation which will mean that these new obligations will not be in their entirety, additional demands upon the present general revenues of the dominion.

Now, Mr. Prime Minister, I feel that I should also make reference to one other matter at this time, which in my opinion illustrates, perhaps, even more clearly what I have defined as an attitude of uncompromising rigidity on the part of the dominion government. I refer to the position taken by the dominion government with respect to the proposed constitutional amendment to enable the provinces to exercise the right to collect a retail turnover tax. It will be recalled that last February all of the provinces and the dominion officials were in agreement as to a specific amendment to the British North America Act to enable the provinces to impose an indirect sales tax or retail turnover tax. At that time Mr. Ilsley suggested that the matter should be taken care of by a general amendment providing for the delegation of powers as between governments.

It will be recalled that the Premier of Quebec at that time stated that although willing to accept or agree to a specific constitutional amendment on the question of sales tax if it was desired by the other provinces, his province would never accept a general amendment providing for the delegation of powers as suggested by the dominion.

If I recall correctly, that position was endorsed by the province of Ontario, although I stand to be corrected if my memory fails me on that point.

When the coordinating committee adjourned last February there was unanimous agreement on the part of the provinces and the dominion that if an agreement could be reached on these other matters, an amendment to the British North America Act to specifically provide the provinces with the right to impose retail turnover taxes could be obtained. Now, much to our surprise, upon returning here last week we learned that the dominion government had changed its mind in this matter and would not now agree to the specific amendment that was unanimously agreed upon last February, and now takes the position that the only amendment to the British North America Act which it would agree to would be a general amendment to provide for the delegation of powers. The minister of finance restated this original position this morning. He did so knowing that at least one province, if not two, were definitely opposed to it and would not give their consent to it. He did so in spite of the fact that the specific amendment proposed would not impose one additional cent of burden upon the dominion treasury.

Now, Mr. Prime Minister, I cite these facts not in a spirit of bitterness, but rather for the sole purpose of emphasizing the attitude of uncompromising rigidity which the dominion government has adopted in this matter.

So far as the position of the government of Alberta is concerned, I think I stated our attitude quite clearly yesterday afternoon and I need not repeat it today. What I said yesterday afternoon holds good today. In my opening remarks yesterday afternoon, I made this observation. "The success of this conference and of all that hinges thereon is hanging precariously in the balance." I need hardly say that that fact is even more obvious today and I am forced to say this after listening to the reply of the minister of finance to the submissions of the provincial premiers that, if this conference fails, and I sincerely hope that even yet it will not fail—but if this conference fails, the responsibility for its failure will rest squarely on the doorstep of the dominion government and will be due to the attitude of uncompromising rigidity expressed on behalf of the government by the minister of finance this morning.

Mr. MACKENZIE KING: Very well, Mr. Douglas.

Mr. DOUGLAS: Mr. Prime Minister and gentlemen, it has now been a week since this conference was convened and we have reached what seems to me to be a very critical stage in our deliberations. We have reached today what almost amounts to an impasse; the federal government has stated its position, which is a reiteration of the position that was stated on Monday morning, and some of the provinces have now stated their alternative positions. It seems to me that this is a time when we all should very calmly try to come to grips with the issues that are at stake. I do not think it is going to help any for us to get out of temper, for us to call into question the ability of what others around this table may understand by the King's English. I think this is a time when we have got, reasonably to have regard to the heavy responsibility which is upon our shoulders, to try to come to grips with the problem which confronts this conference.

First of all there are two points of view which have been taken in the main. I think the main issue is that there are those provinces who believe that the wealth which comes from national undertakings as a result of national policies, belongs to the people of Canada as a whole and ought to be made available to them so that they can maintain a certain minimum standard of living. On the other hand there are those who believe that in the main, the wealth which is produced in certain favourable provinces belongs in the main to the people of those provinces.

Mr. Drew felt that I was not fair yesterday in my reference to Ontario's proposal. I certainly did not wish to give any offence but I feel that if I was at fault at all it was in not elaborating rather than in merely referring in passing to those proposals. The statement which was made by the premier of Ontario and read on Monday at the bottom of page 15 reads:—

Before closing these remarks it perhaps should be said again in this open conference that the Ontario government has at all times expressed its belief in the principle of fiscal aid to those provinces which from time to time require special financial assistance and that Ontario which proposed the setting up of a National Adjustment Fund for that purpose, keeps that proposal before this conference.

It will be noted, Mr. Chairman—

Mr. DREW: That wasn't what I said. What I said will be found on page 27 of *Hansard*.

Mr. DOUGLAS: I was reading from the brief which was submitted, but I shall be very glad to quote now from *Hansard* if that will satisfy you.

Before closing these remarks it perhaps should be said again in this open conference that the Ontario government has at all times expressed its belief in the principle of fiscal aid to those provinces which from time to time require special financial assistance and that Ontario which proposed the setting up of a National Adjustment Fund for that purpose, keeps that proposal before this conference."

Mr. DREW: Go on, there are two more paragraphs yet.

Mr. DOUGLAS: I should be very glad to read all of it.

Mr. DREW: Do so!

Mr. DOUGLAS: Coming from one who takes such violent exception to interruptions, the premier of Ontario does very well.

Some question has been raised about the administrative organization suggested by the Ontario government. We are not wedded to the particular form we put forward. We were simply asserting our belief in the principle that there should be in Canada, for reasons which have been clearly established, a national adjustment fund administered equitably and in such a way that those provinces which have not that wide latitude and flexibility of taxing powers possessed by certain other provinces will not be without some freedom to meet unusual conditions which, because of the limited aspect of their economy—I mean limited in the particular nature of the economy—do present special problems.

Now, this refers back, of course, to the proposal of the Ontario government in their brief which was submitted last January and on page 27 it will be remembered that they proposed that the dominion should levy corporation and personal income taxes and that the provinces should also levy corporation and personal income taxes and that the federal government should act as the agent for the provinces. Then they go on to suggest: It is further recommended that ten per cent of the revenue of each provincial government be placed in a pool to be known as the National Adjustment Fund, and to the extent required, the pooled revenue would be apportioned among those provinces to enable them to provide a national minimum of social service, and the amount of the provincial adjustment would be determined by the Provincial-Dominion Coordinating Committee, a grant would be made only on the basis of need and they would be reviewed and adjusted in conformity with the changing requirements in the several provinces. This proposal would in no way interfere with the direct expenditures of the dominion government, but it is considered that pooling of provincial tax revenue should make it unnecessary for the dominion government to grant fiscal need subsidies to the provinces. That was the position. That was the position taken last January, that the provinces could collect their own corporation income taxes and succession duties and that they should be put into a pool, 10 per cent to be redistributed on the basis of fiscal needs.

Now, in the brief made on Monday the Ontario government now suggests that they are prepared to surrender personal income tax and corporation taxes. I am asking the question, as to where this 10 per cent is to come from that is to be put into the National Adjustment Fund? It cannot come from provincial taxes, if the provincial governments are to surrender these two tax fields. It will therefore have to come from the total amount collected by the federal government, who will now have sole jurisdiction in that field, and I take it that what the Ontario government now suggests is that, out of the total taxes collected by the federal government or a percentage of them in personal income tax and in corporation taxes, 10 per cent, or some per cent would be put into the fund to be reallocated to certain needy provinces on the basis of fiscal needs.

Now, the quarrel which I have with Ontario's proposal has nothing to do with administration, whether it is this coordinating committee or a federal commission or a judge or anyone else who is going to reallocate the percentage of taxes turned over to it; that has nothing to do with the question. What I have in mind is: I object to the principle in its entirety. We do not think that a percentage of such taxes should be put aside to be treated as belonging to the people of Canada as a whole. We believe that all the taxes collected as a result of national policies, affected by national policies, should be spent for giving certain maximum national benefits.

When one stops to realize that the corporations who pay their taxes, for instance, in central Canada—who make a great deal of their money in the province from which I come, implement companies, mortgage companies, loan companies, banks, railroads; when one realizes that the tariff is controlled by the federal government and the federal parliament and that it affects all the items of production which people in my province buy, and that it affects not only their cost of production but their cost of living, when one realizes that freight rates which are also set by the federal government enter into the cost of production and the cost of living of the people of the province from which I come—the system of freight rates is like the peace of the Lord that passeth all understanding—when one realizes that matters of exchange, rates of exchange vitally affect the income of people in the prairie provinces—it is generally acknowledged that the tying, for instance, of our dollar to the gold standard, tying it to the American dollar in the 1930's caused the farmers of western Canada millions of dollars, as did also the tariff policies of that day. Therefore, if these policies are to affect, as they do, the standard of living of the people of the province of Saskatchewan, we maintain that the incomes derived from the operation of these policies belong not merely to the provinces in which they are collected, but to the people of Canada as a whole and should be used to see to it that the people in every part of Canada have at least a minimum standard of wealth.

We believe that Canadians have a right to have access to wealth collected by the central government, that a teacher has no right to be paid less in one province than in another; or a person on old age pension has no right to be receiving less old age pension in one province than in another; or that a widow who is trying to raise her children has no right to receive a smaller mother's allowance because she happens to live in one part of Canada rather than in another part.

I must dissociate myself from the point of view expressed by the premier of Quebec, when he says that the introduction of the income tax in 1917 was brought in by a bad minister of finance.

Mr. DUPLESSIS: I did not say that at all.

Mr. DOUGLAS: Well, you criticized it being brought in by the minister of finance in 1917?

Mr. DUPLESSIS: It was, in my mind, a case of where anybody makes a promise and does not keep it, that is bad, whether he be a liberal or a conservative.

Mr. DOUGLAS: Well, the record speaks for itself. I take it that the premier of Quebec objected to the federal government stepping into the income tax field, believing that it should be left to the provinces. And we take the position that it was a good thing for the federal government to step into the income tax field, and that only by the federal government's stepping into the income tax field and the corporation tax field could it levy taxes on wealth which had been made in various parts of Canada but which would be paid only into the provinces in central Canada unless they were collected by the federal government.

So, the position as I see it is not a matter of setting aside 10 per cent or any percentage of those taxes. We believe all those taxes should be made available on a basis of fiscal needs to the provinces and to the people of Canada; and that there is as much difference in our opinion between that proposition and the proposition proposed by Ontario as there is in the difference between someone coming to your table and sitting down to a good meal as compared to someone getting a mere handout at the back door.

As far as Saskatchewan is concerned we want to sit down to the table with the people of Canada and be served a share of this wealth; not to be handed a sandwich and a cup of coffee on the back steps. Now, a great deal has been said about the danger of the federal government paying subsidies to the provinces. It seems rather inconsistent to me that we should talk about the danger of subsidies and then complain because the subsidies are not big. I want to point out that the provinces would be impaired much more if there were no subsidies at all because there is no greater way to impair the independence of the provinces than to reduce them to a condition of economic servitude.

It is not enough to say that the province is independent because you give it certain powers, if it cannot exercise those powers, and to give to our provinces the power to levy taxes on corporations that are not there is like giving a blind man a telescope as a Christmas present. So we take that position with respect to the agreement which is proposed, whatever the modifications may be necessary, that it would destroy Confederation. I suggest to the members of this conference that the fastest way that I know of to destroy Confederation is to make it necessary for each province to go back home and to start to raise money to meet its obligations, that will be the best way to destroy Confederation.

It was said today that certain provinces have produced great amounts of wealth. The province from which I come has produced great amounts of wealth. The Right Hon. Mr. R. B. Bennett said one time in the House of Commons in the 1920's or 1930's, that the western provinces produced \$10 billion of new wealth. They have produced a great deal more than that since. We have produced great wealth, but it is sent off; and if you want to destroy confederation, Mr. Chairman, the best way to destroy it is to leave to these provinces no other alternative but to start to work out, once again, means to prevent that wealth from being drawn off. It can be done, but it will proceed to raise barriers between the provinces and arouse sectional differences which in my opinion will not be good for the people of Canada or for the welfare of this country as a nation. There is no better way to destroy confederation than to compel those provinces which have a large amount of wealth drained off annually to begin to adopt the measures to prevent that wealth from being drained off.

So, I would say, as far as we are concerned, much of the fear of what subsidies will do is not well founded. We have a much greater fear of what will happen if each province has to go back and begin internecine strife between the provinces and to work out ways and means by which they may get what they consider to be their fair share of the wealth produced in their own province.

May I say a word about the statement made by Mr. Ilsley. Mr. Ilsley referred to the statement that Saskatchewan was willing to take the proposals as they stand. May I remind the conference for the sake of clarity that with respect to whether we are prepared to accept the proposals as they stand it depends upon the proviso that the treasury bills which are now held by the federal government shall not be applied against our subsidy in the way of a set-off, as the federal government has insisted upon doing; and, having in mind our experiences of the past, we must constantly reiterate that reservation.

The Minister of Finance made a statement which was in the main negative. Those members of the conference who have seen the musical comedy known as "Oklahoma" may remember the girl who sings the song, "I can't say No." The

Minister of Finance cannot say "yes" and his answer to every proposal that was placed before him for consideration was a most emphatic No! He told the conference quite properly about the very heavy commitments which the federal government is called upon to make. I have not time and I will not weary the conference by going over the long list of commitments and extra commitments which the provincial governments will be called upon to make as a result, first of all of the war; and secondly, as a result of the federal government's policy.

I would remind the federal government of the contribution which the provinces made towards the training of returned men. The amounts which they pay does not begin to cover the cost of training returned men. Then, the highways have been largely destroyed because of the restrictions, during war-time, on the amount of tonnage which a truck should carry, during wartime, were removed. The education of returned men in the universities, and the contribution made by the federal government for such purpose only pays in part for the education of those men. Then again as a result of the raising of the old age pension, which certainly ought to be raised, the social services of the provincial governments are exclusively concerned, the provincial governments will have to raise large sums of money and where are they to get this money? The provincial governments are to be responsible for unemployment, a heavy responsibility, and they will have to contribute 50 per cent of the cost of paying old age pensions from 55 to 69; and in the event of drought we will be seized with a responsibility of meeting agricultural aid. These are all very heavy commitments.

The minister of finance touched on only two things. He said that we are prepared to give the provinces the power to levy retail sales tax or indirect taxes, whereas now we have the power to levy only direct taxes. Now, there is certainly a limit to the amount of taxes that can be applied. And the other was the poll tax. May I say, in reference to that we are just deceiving ourselves if we try to say that the federal government is just insisting that the provincial governments levy a poll tax.

The fact of the matter remains that health insurance is estimated to cost \$12.96 per person, and that the federal government is prepared to pay some \$12.96, leaving the province with the responsibility of raising \$8.64; and the provincial governments cannot possibly pay \$8.64 out of the consolidated revenue which will have to be raised by means of a poll tax, certainly in our province.

Now, the Minister of Finance says that the only reason they cannot get out of some of these tax fields is because their finances would be depleted by the amount of \$60,000,000 or \$70,000,000 which they now receive from those sources, and that would mean that they would have to arrange to secure that amount from the income tax field; if it does not come out of the income tax payer, it will have to come out of somewhere else because somewhere, somehow, they will have to have that amount of revenue. If it is not levied as a tax on gasoline, electricity, and things of that sort, some other means will have to be found of getting it. Then he says further, that if the federal government steps out and drops the 3 cent gasoline tax at present in effect, it has got to come from somewhere, because if the federal government steps out it would have to find that money through the medium of income tax.

Yesterday I made an appeal to the federal government in which I pointed out that these six minor tax fields were relatively an unimportant source of revenue, that as far as our province was concerned we were not asking and are not asking now, as far as we are concerned, that the federal government should get out of these tax fields. But I want to repeat what I said yesterday, that in my opinion, in the matter of some of these minor tax fields, if it will make possible the acceptance of a dominion-provincial agreement by some of

the provinces, it would be a very small price indeed to pay; and I would have hoped that the Minister of Finance would have seen his way clear to have met some of these provinces on at least some of the points that have been brought up. Frankly, Mr. Chairman, the Minister of Finance sounded this morning like some of the budget speakers that we used to hear from 1934 till about 1939, when he said, "where is the money coming from?" I listened to the Minister of Finance make budget speeches during the war in which he said that the only financial limit upon the capacity of the Canadian people was our physical capacity to produce. This is a time in which the national income is rising rapidly, and it seems to me that the Minister of Finance found billions of dollars to carry on the war and he should be able to find the money with which to carry on in a time of peace and to meet the requests which have been raised by some of the provinces.

One suggestion in conclusion, Mr. Chairman; we have now reached the stage that we are trying to arrive at some finality. We have to decide within the next day or two, it seems to me, each of us has to go back home and begin to levy taxes solely in the interests of our provincial economy and without any thought to the national welfare, or the other alternative is that the federal government has not completely closed the door and will be prepared to discuss some of the points still at issue with the provinces who are making that request. If that is true, I think what we should do this morning is to go back in committee and let the federal government and each of the provinces who still have some points they want to clear up try to thresh those points out. If we cannot do that it seems to me that the only alternative left is for the federal government to say, this is our final offer. And I have one other point, whether or not this agreement must be signed by all the provinces, or whether the federal government is prepared to enter into an agreement with whatever provinces are prepared to enter into an agreement with it. It seems to me that there is not a great deal of value in further debating the matter over and over. We have two alternatives, either to break up now and each to go our own way, or to go back into committee and try to find some sort of a general agreement; or for the federal government simply to say emphatically and categorically, we cannot go any further, that is as far as we are prepared to go; and also to say whether or not they want a unanimous agreement or whether they are prepared to sign agreements with whatever provinces are willing to sign. It seems to me that now is the time for the federal government to give a lead as to what its attitude will be so that we can conduct ourselves accordingly.

Mr. DUPLESSIS: Speaking for the province of Quebec, Mr. Chairman, I may say that our session ended only two days before this conference was called. The time in which we had to prepare our brief for submission was very limited, but we tried to do the best we could with the time at our disposal. We came here with the object of doing a good job and we had hoped that the federal government would come across with some proposals which would be acceptable. It is quite clear that Mr. Ilsley has made the position of the federal government clear and definite, and if Mr. Ilsley was speaking for the federal government it was a "take it or leave it" proposition; and, speaking for Quebec, I am prepared to leave it and take the train home.

Mr. MACKENZIE KING: Well, Mr. Duplessis and gentlemen, the conference is the master of its own proceedings and all here present are on an equal footing. It is open to any premier at any time to make any motion. I would be the last one to suggest that we discontinue our efforts to reach an agreement; and consequently suggest that we adjourn until tomorrow morning at 10.30 o'clock.

The conference adjourned at 6 o'clock p.m. to meet again tomorrow, May 2, 1946, at 10.30 o'clock a.m.

PLENARY SESSION — No. 8



DOMINION-PROVINCIAL CONFERENCE

Thursday, May 2, 1946

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

DOMINION-PROVINCIAL CONFERENCE

SENATE CHAMBER, OTTAWA, May 2, 1946.

REPORT OF PROCEEDINGS

The Dominion-Provincial Conference met in the Senate Chamber at 10.30 a.m., with the Prime Minister, the Right Hon. W. L. Mackenzie King, presiding.

The CHAIRMAN: The Conference proceedings are now open.

STATEMENT BY RIGHT HON. L. S. ST. LAURENT

Right Hon. L. S. ST. LAURENT: It may be proper to take a few minutes at this time in an effort to clear up some misconceptions which still seem to persist with respect to the purposes and the progress of this conference and the point the negotiations have now reached.

Just before we adjourned last night, Mr. Manning reiterated very grave concern over what appeared to him to be the precarious point that the conference had reached, and stated emphatically that if it failed, the responsibility for that failure would be squarely on the doorstep of the Dominion government because of its uncompromising attitude with respect to what he considered were matters of rather minor importance relatively to the magnitude of everything that is involved.

The conference has not broken up and I hope that it will not break up; but if it does not reach an agreement it will not be because of the uncompromising attitude of any one on any point of minor importance; it will be because we as responsible members of governments, responsible to the Canadian public, will not have found it possible to come to an agreement which will appear to us to be such as to enable us to do a better job for the Canadian public than we can do or think we can do without an agreement. That will be the only rock upon which the conference and the negotiations will founder, if they do founder.

It has been said more than once in this conference that when we are discussing financial arrangements for the term of the proposed agreement it is not money which belongs to the federal government or money which belongs to the provincial governments that is involved; it is money which has to be raised from the Canadian taxpayer for the various services that the Canadian public must receive from these several governments.

There seemed to be quite a lot of truth in an editorial which appeared in yesterday's *Ottawa Journal*, and I should like to place it before the conference. It is as follows:—

THE PEOPLE'S MAIN CONCERN

Parliament goes solemnly about its business. The Dominion cabinet and the premiers of the provinces gravely discuss their common affairs. We suspect that the Canadian public have an attitude of more than a little indifference to it all.

What the average Canadian wants, and wants now, is lower taxes. Specifically that means lower income taxes. He sees that the war has been over for a year, he feels that if government spending is not away down it ought to be, and he wants a substantial tax cut effective right now.

I think that is also the main concern of us all, and the reason for this conference. All of us realize that the nation and the provinces have heavy burdens to meet, heavy burdens which must be met. We realize that in order

to meet these heavy burdens every effort must be made to maintain the economic activity of the country at a high level; and to do that I think we all feel it requires great care and careful attention to what we shall do and what we shall omit doing.

This conference was called because it was felt that this careful attention by all the ten governments could be more effective and might be more fruitful if our efforts could be co-ordinated than if it were left to each government to act alone and possibly sometimes at cross-purposes.

May I recall that the Dominion has been forced into the field of very heavy personal and corporation income taxes; and that during the period of the war, for the safety, for the preservation of the nation, the provinces agreed to withdraw temporarily from the fields of personal income and corporation income taxes, so that the federal government might get from those fields of taxation the greatest possible amount for the purposes and expenses of the war. And they agreed to that for fixed sums, not Dominion government money but for the allocation of fixed sums raised through the instrumentalities of the Dominion government from the Canadian public.

By the exigencies of the war the Dominion also has been forced to enter the field of succession duty taxation. The experiences gained from the administration of its tax laws in that field has shown that it gives a very effective instrument to aid in the collection generally of personal income tax.

It has been suggested that it is quite wrong for a tax law to be such that after years the taxing authorities can come back and question the adequacy of payments made by the individual taxpayer. I do not agree with that. When income taxes have to be raised from the taxpayers it is because there is an aggregate amount of money required, and it is only fair to the individual taxpayer that all possible means be taken to see that each one of them contributes the share which, under the law, he should contribute; otherwise the deficiency resulting from the inadequacy of his contribution has to be made up by increases taken from the others. When there is an avoidance of the payment of the portion of the tax that the law calls for, it is not the treasury of the federal government or the treasuries of the provinces that are being prejudiced, it is the taxpayers generally.

If it is true that having to do with the administration of succession duties helps in getting from all the taxpayers their proper share of income tax, I think that is something which it is worth while to conserve.

We have now come to the time when the war, at least as far as actual fighting is concerned, is over, but there can be no doubt in any one's mind that the effects of the war upon the treasuries of the ten Canadian governments, and upon the population generally, are not yet over. It was pointed out here by some of the premiers who have spoken that arising out of the war there has been increased expenditures forced upon the social services or educational facilities of the provinces. I think that is so. I think there are additional burdens not only for the federal treasury but also for the provincial treasuries which are an unavoidable consequence of the manner in which this country participated in the war.

Although I have seen in one or two papers articles that seem to deplore what this country did in the war, the obligations it incurred as a consequence of the war, I am convinced that that is not the attitude of the Canadian public. I am convinced that the Canadian public, in a very large majority, almost the kind of a majority that looks like unanimity, is satisfied that this country did the right thing, and that it was proper for it to incur the obligations that were incurred and fortunately coincided at least with the magnificent result of the joint effort of the allied nations. But nevertheless I think everyone knows that what the average Canadian wants at the present time is lower taxes; and by

that he means a substantial cut in income tax and in those taxes that might have an adverse effect upon the possibility or probability of there being steady jobs.

When this conference was called the Dominion government suggested that for the period of the proposed agreement the provinces agree to remain out of the field of personal and corporation income taxes and also out of the field of succession duties; so that, as it might become possible to make substantial cuts in the rates of those taxes, those cuts would immediately rebound to the immediate benefit of the taxpayers, and would not be merely an occasion for the amount represented by the cut being replaced by a tax imposed by some other taxing authority.

It proposed to share with the provinces the proceeds of these taxes in the form of a subsidy, the amount of which would be fixed and which would then vary upward with increases in population and with increases in gross national production. Its first effort was to fix that minimum at \$12 per head based upon the level of the gross national production in 1941 and based upon the population of 1941. That constituted the first proposal that was put before the conference at its first plenary session. All of us who were there know that that basis for the establishment of a subsidy was immediately discussed and declared to be insufficient, and that suggestions were made that the Dominion government should reconsider the bases. We tried to urge that the \$12 on the 1941 population and the 1941 G.N.P. would not at all represent in amount substantially what the provinces were going to get because there had been some increase in population all over Canada, and there had been a very substantial increase in gross national production. It was urged that that might be so but that there was nothing secure in that, and that the only thing the budgeting authorities for the provinces could really count upon was the irreducible minimum. Because of these representations, because of the Dominion government's desire to meet in so far as it might be possible to do so, the objections suggested, another plan was worked out using instead of \$12 per head \$15 per head, using instead of the 1941 population, 1941 population as shown by the census or the 1942 population as shown by the estimates of the Dominion Bureau of Statistics, though it was quite apparent that that would mean more people than there were in Canada altogether. There have been some shifts of population, or at least there appeared, from the comparison between the figures of 1941 and the figures of 1942 that there had been some rather important shifts in population, though the provinces from which they had gone were to retain the number originally shown, and the province to which they had come was to get the increase. Therefore there was a certain increase, but that did not appear to work out to any very serious disproportion, because we were firmly convinced that this minimum was never going to be operative, except where it was fixed on another basis, on the basis of \$2 millions or the basis of 150 per cent at least of what had been the subsidies under the war-time tax agreement, we were convinced that for the other seven provinces the minimum was never going to be called upon to operate during the lifetime of the proposed agreement, the three years 1947, 1948 and 1949.

It is now suggested here that that looks like something of a joker; that it is not really an increase of \$3 per capita that the provinces are going to get. I do not think that in the co-ordinating committee anyone thought that it was. It was an increase in the minimum which brought the minimum up nearer to what the estimate was of how the original formula would operate in view of the considerably increased gross national production figures.

The Premier of Ontario suggests it might also look like another joker, to have it appear that there is a \$15 per head minimum whilst in fact if the population of a province increased considerably beyond the natural rate of increase and at the same time the gross national production decreased the

minimum arrived at and written into the contract divided by the actual population might turn out to be not \$15 but \$14.50. This minimum was not going to be written into the contracts at \$15 on an estimated population. This was a formula which was proposed to arrive at a set figure that was intended to be written into each individual contract with each province, that in no year would the amount of the subsidy be less than so many dollars.

Some anxiety seems to have been felt also in this regard: if the minimum is an amount stated in dollars and cents, what would happen if we got inflation? The number of dollars would remain as the stated amount to be paid, and if we got inflation and the gross national production figures dropped, that minimum number of dollars might not have the same value that it had when the contract was signed. I do not pretend to be an economist, but it seems to me that if we got inflation the dollar figures that represent the gross national production would be inflated by just the very measure to which the inflation operated, and would take us far away from the situation where the minimum would apply. The inflated figures representing the gross national production would inflate the \$15 by the same proportion to which inflation generally had persisted in lowering the purchasing power of the dollar.

There was also a suggestion that this represented a temporary agreement, and, nevertheless all the arguments used by Mr. Ilsley to support the theory that it would be in the interests of the Canadian public that the dominion alone should utilize the tax field of personal income, corporation income and succession duties, would be equally valid after the expiry of the three-year period, just as valid as they are at the present time, if they have any validity at the present time; consequently Mr. Ilsley would not, at the expiry of the agreement, be in a position to advise his colleagues that the dominion government should abandon these fields.

The premier of Ontario did use the word abandon. I do not think he meant by that that the dominion government would be contemplating retiring from the personal income, corporation income and succession duty fields. Desirable as that might be from the provincial point of view, I do not think it is a situation that can be contemplated in the near future. The obligations which have fallen upon us all, upon the provincial governments and upon the federal government as a consequence or coincidentally, are so great that I do not think it is going to be possible in my lifetime for the dominion government to carry its share without some portion of its revenue being derived from personal income and corporation incomes.

But what is proposed is that a contract be made and that the contract provide that for three years the provincial governments will remain out of those fields. If that contract is not made, the war-time agreement contracts are going to be carried out; and if that contract is made I do not think it is proper for anyone to suggest that a proposal to make it implies any bad faith on anyone's part.

It was suggested yesterday that there was an indication of a lack of good faith in the attitude of the federal government at the present time because, in the month of April, 1941, the Minister of Finance had stated in his budget speech that what was going to be proposed to the provinces was not that they give up permanently the right to impose personal income and corporation income taxes but that they retire for the duration of the war from those fields so that they might be occupied exclusively by the federal authorities, but that he pointed out that the proposed agreements would expressly exclude succession duties.

The agreements made at that time are valid agreements, agreements sanctioned by parliament and by the legislatures; and so long as I am a member of the Canadian government I am going to expect that the dominion govern-

ment will carry out its contractual obligations. And I believe that is the attitude that the Canadian public expects from whoever is a member of the Canadian government.

But if in fact it be to the interest of the Canadian public that for a further period another agreement be made, I do not feel that there is any bad faith or any absence of good faith in recognizing that fact and in trying to do what would be felt to be in the better interests of the Canadian people generally.

It has been said that the dominion has come along with repeated changes in its offers. That is not quite so. There have been several meetings of the members of this conference, and the dominion has tried from time to time to meet the criticisms made of its proposals and to extend, to the limits that appeared to it to be possible, the difference in the amounts to be allocated out of the total collections from the Canadian public to the provincial governments. And those changes, those increases up to the present time, have always been made on the basis that the dominion taxing authority was going to remain in the field of succession duties, gasoline taxes, amusement taxes, parimutuel taxes, electricity sales taxes and security transfer taxes, taxes which have yielded something of the order of \$75 million for the share collected by the dominion authority.

Latterly the question has arisen, that if the dominion remained in these taxing fields there would be no other fields in which the provinces would be the sole occupants but real estate and motor vehicle licences, and that that was a situation which would not allow sufficient room for the exercise of proper legislative jurisdiction by the provinces in the imposition of taxes and the raising of revenue. Questions were put as to whether or not, if the provinces agreed to remain out of the main fields of personal and income corporation taxes and succession duty, or succession duty partially, the dominion government would agree to remain out of the fields I have named, namely, succession duties, gasoline taxes, amusement taxes, parimutuel taxes, electricity taxes, and security transfer taxes.

When the summing up of the dominion's position in that regard was made by Mr. Ilsley yesterday, Mr. Manning interpreted his speech as one that could be summarized in the two-letter word "no".

I do not think that is the case. With respect to succession duties, the dominion Minister of Finance stated that he could not recommend considering the withdrawing of the dominion from that tax field for the reason he gave, but he did suggest a formula which would avoid in that tax field duplication of taxation, even for the provinces that wished to remain in that field. For those that wish to remain in that field, the dominion would give credit to the individual taxpayer resident in that province of the amount of succession duties paid by him to that province up to the rates and under the administrative practices prevailing in 1946 before the war-time taxation agreements were made.

This means that if a province chooses to maintain its succession duty rates as they were in 1946 there would be no duplication of taxation because of the federal government being in the field, for the federal government will give credit to the taxpayers or representatives of deceased taxpayers in that province to the full amount paid by his estate to the provincial authority. If the provincial authority chooses to increase its rates the taxpayer would get credit only up to the amount that would have been collected on the 1946 basis. The increase will be solely and exclusively to the benefit of the treasury of the province that sees fit to impose it. The total credits given to the taxpayer of a province because of succession duties paid to the province would be deducted from the rental agreed upon for the making of the arrangement; that is for the agreement of the province to remain out of the other fields for the duration of the agreement.

This is a tax which it seems to me is on the increase in producing revenue even without any increase in rates. During the period of the war there has been added to the transmissible wealth of a couple of million Canadians something like ten billion dollars. That wealth is going to be transmitted from time to time, probably at the rate of two or two and a half per cent a year, and the average rate at which taxes have been collected by the Dominion for the period in which it has been in the field is 5.47 per cent. If there is an additional \$250,000,000 per annum transmitted and coming under those rates, that is quite a substantial sum. That is something to which consideration had been given in the proposals that had been prepared by the Dominion, fixing the amount which it felt could be transferred from its collections to the provinces in return for their remaining out of these fields.

As to the other taxes, the gasoline tax, the amusement tax, the pari-mutuel tax, it does not seem to have been realized by the public that instead of saying no we have said yes. We are quite prepared to withdraw from those fields on the same basis on which we are asking the provinces to withdraw from personal and corporation income tax fields for a consideration, a rental for the period during which the lease would be in force; and there was one form of rental suggested with respect to the gasoline tax, not a stated sum of money to be returned by the province to the Dominion but the leaving to the provinces of the share contemplated in the proposals of the Dominion which the Dominion would pay for old age pensions without the means test to those between the ages of 65 and 69. According to the estimate, that would be something of the order of \$20,000,000, and the total of the Dominion's gasoline tax collections is of the order of \$30,000,000. I think that that also is a tax which at the same rate is apt to be of increasing value.

The principle of saying: Are you willing to retire from these fields for a rental, as you ask us, the provinces, to retire from the personal income tax and corporation tax fields for a rental, is one which Mr. Ilsley expressed his willingness to agree to if what shall be the proper rental can be arrived at by the provinces. If they can agree as to what should be a proper rental we would be prepared to consider withdrawing from those fields. The same statement was made with respect to the amusement tax and the pari-mutuel tax.

If this Conference does not come to an agreement I hope that no one in the Canadian public will have the impression that it broke down over the question who was going to collect the tax on betting on horses or even over the question who was going to collect the tax on gasoline consumed in motor cars. There is much more than that involved in this problem. If the Dominion and the Provinces cannot reach an agreement, it will not be because they cannot reach an agreement as to who shall collect these taxes. It will be because of the serious difference of views between them as to what the total allocation of the tax incomes of all governments shall be.

The only point on which Mr. Ilsley, as I listened to him, was rigid was the point that on the basis of the Dominion's proposals the limit as to financial transfers had been reached, that it was felt there must not be any further changes which would increase the amounts that would have to be transferred out of the Dominion's collections to Provincial treasuries. I am using the word "transferred" advisedly. I am not saying the amount that the Dominion will have to pay because it is not the Dominion's money, and when it goes to the provinces it does not become the province's money. These are trust funds raised from the Canadian public for the services of the Canadian public. On that point the Dominion Minister of Finance did manifest rigidity, that in his view on the basis of the proposals submitted by the Dominion, involving the very onerous burdens which were enumerated, he did not feel that any increase in the total transfers could be agreed to. That was the only rigid statement that his speech contained.

There has to be one view or another taken. The view of the majority of Canadians is that government expenditure has got to be met out of dollars collected from the Canadian taxpayers or borrowed on the system of credit, which implies that it is going to be repaid in dollars of the same kind. The vast majority of Canadians have still failed to see that it would be possible to issue debt-free money with which public obligations can be taken care of.

The question is suggested: Well, how is it that during the war you were able to do the things that had to be done without regard to the cost in dollars, and that dollars were not the measure of what could be done or what should be done but rather the producing capabilities of the Canadian public, and that alone.

During the war the government was able to do that because the provinces had, as a patriotic gesture, retired from these income tax fields and because the Dominion imposed, on personal incomes, taxes which the Canadian public at this time feels quite generally must come down. There is no question of an increase there. The Canadian public quite generally feel that there must be a substantial cut in these income tax rates.

The Dominion Government also imposed on the earnings of corporations a 40 per cent tax, plus the personal income tax on every dollar that the company distributed as dividends, and plus an excess profits tax, which at the height of our expenditure was 100 per cent.

Moreover, during those war years the Dominion government had to borrow from the Canadian public approximately 50 per cent of the amount of its annual expenditure. That 50 per cent was borrowed, and it is something that has got to be paid back, something to which the credit of the nation has been pledged in favour of each holder of one of those bonds. That means that there has been a burden which will last for a great many years placed upon this and succeeding generations to pay that borrowed money back.

We can do that during a war when we are fighting for our very existence because the existence of a country is of such value to ourselves and succeeding generations that we have no hesitancy in creating burdens that they also will have to bear.

But that cannot continue under normal conditions. Under normal conditions the Finance Minister, when he gets back to what is going to be the normal rate of expenditure, has to balance his budget. Perhaps in good years he may do better than balance his budget and make some provision for the leaner years, as provided in what has been called this integrated scheme of maintaining a high level of income and employment, to be in a position to bolster the national economy when it shows a declining trend, by making public expenditures even at the risk of incurring deficits to be met out of the takings in prosperous years.

That is the system of Canadian finance, and that is the system which in my opinion the vast majority of the Canadian public wishes to see maintained.

That being the position, there does come a time when the amount which a responsible federal finance minister can agree to seeing transferred from federal collections to provincial expenditures must be considered and a line has got to be drawn. That is the point and the only point upon which rigidity was manifested by the Minister of Finance. I think the Canadian public owe a debt of gratitude to the Minister of Finance for the rigidity which is to be found in his character. If there was not that rigidity in his character, this country after the six years it has gone through, would not be in the position in which it is to-day. It is because Mr. Ilsley was able on proper occasions to say no that we find ourselves where we are now around a table discussing problems in the hope of finding a solution that will enable this country to remain on the stable basis that rigid controls made possible during the war period.

There still is this question of the federal government retiring from some or many or more of those fields called minor tax fields, and I gathered from the remarks of the Premier of Ontario yesterday that he felt that Mr. Ilsley had left the impression that the Province of Ontario was not prepared to take into account the value of those tax fields which might be left exclusively to the provinces, and Mr. Drew pointed out that his formula did propose to take into account the value of those tax fields. That is quite true, but we have yet to learn what allocation the Province of Ontario would require for its agreement to remain out of the personal and corporation income tax fields for the period of the agreement. The formula is an algebraic formula in which one of the factors is "X" and although it is said that "X" will be easy to calculate we have not yet been given any figure or shown any calculation which would lead to the placing of a figure upon "X" except, perhaps, the figure Mr. Drew stated yesterday, that Ontario had to budget for \$200,000,000, and that "X" would have to be the figure at which Ontario revenues, added to the yield of its tax fields, would make up \$200,000,000. The way I read the statement made by the Premier of Ontario, "X" may be the same for all the provinces, or it might have to be different for each province. The statement does not exclude either one or the other of those possibilities. If "X" is to be the same for all provinces, and if "X" is to be the figure which, in addition to the yield of the Ontario tax fields, provides—Mr. Drew said, \$141,740,000, but that is not the real figure because that is the difference between the minimum in the Dominion proposal and \$200,000,000—as I look at the estimates which have been prepared by the economic committee, it would seem that the tax fields, even including this, might be expected to yield something of the order of \$100,000,000 in Ontario. That would make it necessary to have an "X" which would make the transfer to Ontario of its share of personal income and corporation income taxes \$100,000,000. If that were carried right across the board it would mean an additional transfer from the Dominion collections to the provinces of about \$150,000,000. The Dominion proposals are of the order of \$200,000,000, but this would require something of the order of \$350,000,000. I hope that I am not applying the algebraic formula correctly, because if there is still that chasm between the provincial requirements and the Dominion offer, I would be inclined to agree with Mr. Duplessis that it would require some bridging.

Now, this "X" would be in addition to the statutory or constitutional subsidies. May I just say here that there is no intention of departing from the constitution; and it does not seem to me that if by agreement the amount to be paid yearly to a province is very substantially larger than the amount called for, there is any violation of the constitution by stating it in one figure instead of stating it in two, and that is all the agreement will do. There is no suggestion that the constitutional or statutory subsidies are going to be wiped out; there is a suggestion that they are going to be a part of a very much larger sum to be transferred from one treasury to the other.

It has been suggested that in the Co-ordinating Committee the manner in which "X" should be calculated could be explained. It has been suggested that it might be explained over a lunch table. No federal representative was invited to be present; and I am not complaining, I am not suggesting he should have been.

Mr. GARSON: I would point out that no such explanation has been received by us.

Mr. ST. LAURENT: At any rate, to the Dominion authorities it is, not exactly an algebraic formula, but a puzzling formula. My calculation, which I hope is wrong, would show that on the basis of the over-all amount to be transferred, in addition to retiring from such-and-such tax fields, there would be a difference of the order of \$150,000,000.

With respect to the province of Quebec, Mr. Duplessis objects to the Dominion proposals, and it is quite his right to do so. And he says that there is not to be any change in the constitution, that is, unless there be a clarification and reallocation, which cannot be worked out over night; and in his brief submitted to the Conference, he says: "In the opinion of the government of the province of Quebec the country requires three things. Firstly, clarification, the precise definition of the taxing powers of the federal and provincial governments in accordance with the spirit and letter of the Canadian constitution, that is to say, taking into account the past, the present and the future. Secondly, the simplification of public taxation to diminish the cost and to facilitate the collection. Thirdly, the collaboration of all those powers so as to arrive at moderation in the field of taxation and to diminish the burden on that almost forgotten one, the taxpayer." I am translating as carefully as I am able to. The statement goes on: "These three fundamental qualities can be easily realized by establishing a permanent committee composed of authorized representatives of the ten governments of the country, studying and working as true brothers in the great Canadian family, respectful and mindful of the rights, prerogatives and liberties of each of its members. During the time required to study and settle these Canadian problems, a temporary agreement, precise, clear and categorical, the duration of which should be determined by taking into account the needs of the federal body and the needs of the provinces, can be come to as a transitory measure founded upon the real basis of the Canadian constitution."

That is as far as the written brief goes on that point—the possibility, for a transitory period, of making a clear and categorical agreement. That does not show very clearly whether the Quebec government would or would not remain for the period of the transitory agreement out of the field of personal income and corporation income and would share the succession duty field. But in his oral statement, which I have read several times, and from which I would like to cite a couple of passages, I think that there is an indication that these taxes might be considered in the clear categorical agreement to be made for the transitory agreement. On page 33 of the report of Monday's proceedings, Mr. Duplessis said:—

It should be possible and it could be possible, without changing the fundamentals, which cannot be changed and which should be considered as untouchable; it should be possible and it is possible to make temporary arrangements, clear precise and definite arrangements, taking into consideration the rights and prerogatives of every party to it.

Then on page 35—I am omitting the objections expressed and discussed and the arguments brought forward by Mr. Duplessis against the Dominion proposals:—

We are willing to collaborate during the necessary time by renting to Ottawa—and I insist on using the word "renting" to Ottawa, certain sources of revenue which can be discussed and which could be found, because we are in good faith and we have the sincere and deep desire to collaborate. But that does not mean assimilation through confiscation. We are willing to collaborate and this is why: as I stated in my brief, we would be anxious to sit down again in committee and find some sources of revenue which could be rented; I have mentioned already income tax, with certain conditions, because income tax today, and I do not criticize anybody, opens the door to a lot of injustice.

A little further down:

As far as corporation taxes on natural resources are concerned it should be possible to arrive at an agreement. The same should apply to succession duties.

I propose, Mr. Speaker, in the name of Quebec, that this conference goes on, and I sincerely hope it will, that we try to arrive at a definite and precise settlement for the determination of certain sources of revenue on a fair basis for everybody.

I have been unable to find in the brief or in Mr. Duplessis' oral statement any indication of what he considers would be a fair rental for those fields, or even anything very precise as to whether those fields would be rented. Certain sources of revenue can be rented temporarily for a fair rental. But on that point I think it would be presumptuous for anyone to attempt to state that the nine provinces are willing to remain out of the fields of income and corporation taxes and to share the succession duty taxes for a compensation based upon the Dominion formula and not involving a transfer of other or greater amounts from the Dominion collections to the provinces.

Up to the present time we, probably, were not very good strategists. We made proposals, and integrated proposals, to try to meet the trying situation in which we are bound to be for a period following the cessation of the war, and these have been very carefully scrutinized and pretty actively criticized. But if there is a desire—I think there is, as it has been stated very frequently, and by no one more forcibly than by the Premier of Ontario—to have an arrangement worked out for a temporary period, at this stage we should know whether we are getting at all close together, and whether the matter of who is going to collect taxes on horse races and on gasoline, and how the allocation is going to be adjusted in accordance therewith, has any point at all. The arrangement to be made is with the nine provincial governments, but it so happens that for the financial effect of the arrangement the attitude of the two larger provinces, the central provinces, is of paramount importance. I hope it will be possible for us to ascertain on what basis they would be prepared to give consideration to remaining out of the income and corporation tax fields for a further period. Until we do, I do not think we can make progress, and I do not think it is going to do any good or that it would do any good to make further small increases. The point has been reached where rightly or wrongly we feel that the ten governments of Canada will be able to do better for the Canadian government without an arrangement than with an arrangement that would involve any greater transfer of the proceeds of federal collections to the provinces than those now contemplated. It may be a mistaken view but if we do not make an agreement here it does not mean that all of us are not going to try to do our best to meet the difficulties and problems of the next few years; and our feeling is that if we cannot have an agreement unless it involves substantially greater transfers in the aggregate from the federal collections to the provinces, we would be better off without it,—not as a government, but the things which will be done will be more beneficial to the public than those which would have to be done with that kind of an agreement. That is a matter upon which I rather like this manner of putting it, by Mr. Duplessis: there should be clarification, clarification that will allow us all to see the width of that chasm if there is one.

Mr. Hart gave us some indication of his formula. That of course cannot be worked out with mathematical accuracy, but there is something there which gives an indication of what his views are as to what his compensation for retirement from the income and corporation tax fields should be, one's best guess at what his re-entering that field on his pre-war, pre-tax agreement rates would yield at the present time. There it is possible to make some estimate. But the budgetary estimates that the economic committee have been considering were, if I read the figures correctly, for Ontario in a high income year of the order of \$152,000,000. If that is wrong, and that should be of the order of \$200,000,000, and the difference has to come out of an increase in transfers from Dominion collections to the Ontario treasury, and that has to be carried through, I fear

that that chasm is too broad for even a broad jumper. And I think at this point we would progress to the point of deciding whether or not agreement is possible and desirable by knowing, with all Mr. Duplessis' restrictions, what would be the consideration for this clear and categorical transitory period agreement that he feels might be made in the interests of collaboration and cooperation, without impairing the constitutional rights of anyone concerned.

I suggest that we try to get to that, and that we leave for a later date an attempt to fix the rental for the minor taxation fields from which, it is suggested we should retire. I use the word "rental", because that is the word being used for the allocation contemplated in respect of the tax fields from which we would want the provinces to retire. Because that is all that is involved.

At the present time there is no suggestion of changing any constitutional powers. The constitutional powers which now exist mean that we do not have to have the provinces' consent to collect income tax and corporation tax, and that the provinces do not have to have our consent to collect income tax and corporation tax. So that it is a rental for the non-user by each party, during a period, of certain rights which constitutionally he might use.

When it comes to determining rental for the non-user by the dominion in these other so-called minor tax fields, I think it would be well for the provinces to try to determine among themselves what may be a proper rental. And they can then put us in a position of: take it or leave it. There is not going to be any taking or leaving of things that are not important, because of the great importance of, if possible, getting cooperation in this period of heavy burdens already existing, and to meet the serious problems which we have to foresee.

Then, with respect to the one constitutional amendment that is suggested, this conference will not break down about that; there is not going to be an agreement thrown aside because of disagreement in the matter of how that one point should be taken care of. I remember that when the matter of the delegation of power from one authority to another was first brought up, Mr. Duplessis said he was opposed to it. Then there was further discussion and rightly or wrongly I gained the impression that it would be possible to overcome Mr. Duplessis' opposition. Because as a matter of fact it would not be a matter of parting with anything.

Nothing could be delegated to the federal authority without the unanimous consent of the nine provinces, and nothing could be delegated by the federal authority to the provincial authorities which the provincial authorities did not want to take. So that it did not seem that it would be very serious. But if it is felt that it would be of assistance to the collection of sales tax by the provinces to do it on a flat rate, applying to the total turn-over, my only anxiety over anything definitely put into the constitution is the result of experience in the past three-quarters of a century.

It is extremely difficult to find language which will carry out what one has in mind, and which cannot then, by interpretation, be extended to much more than what the parties had in mind. On that point, when it comes to that, I suggest that the provinces endeavour to frame the kind of amendment which in terms would be acceptable to them, and would be designed and drawn for the purpose of making possible the indirect collection of this sales or turn-over tax, we will be glad to consider it at that time. And Mr. Claxton says, instead of "consider", to "agree" to it, if it can be—

Mr. ILSLEY: If that is holding up agreement.

Mr. ST. LAURENT: Quite so. The point is that there is not going to be any sticky attitude of the dominion to prevent the reaching of an agreement. I hope it is still possible to find common ground, and then when it gets to the point of determining what form and kind of rental would be offered the dominion for retiring from these fields, we will already be very near a definite settlement.

What appears to be much more important is to determine now what kind and form and extent of rental is indispensable to the provinces for their retirement—their temporary retirement—from the so-called major fields of taxation.

Mr. DUPLESSIS: Mr. Chairman, I am not surprised that Mr. St. Laurent has shown again today that he is a remarkable and clever lawyer, especially so when pleading a bad case. The general attitude of the federal government can be translated by the old saying: "*Primam partem tollo quoniam nominor leo*", that is: I take the best part because I am a lion.

The federal government would like to convey the impression that they are making generous gifts to the provinces. According to their stand, they would take away from the provinces very rich sources of revenue and, then, would be kind enough, after having deprived the provinces of those sources of revenue, to give them back a little bit of what they would have already taken. This is not right nor fair at all.

Mr. St. Laurent admits that, after all, we are not dealing with money belonging to the federal government or with money belonging to provincial governments. In fact, we are dealing with money belonging to the public. According to the Canadian Constitution, which recognizes but did not create the rights and prerogatives of Quebec, this money has to be channelled into two different sources: namely, the provincial source and the federal source. Both are indispensable under the federal system. If the federal authorities, through certain works—I might call them drainage works—divert from the provincial channels the water necessary for the proper functioning of the provincial machinery, it makes practically impossible the very existence of the provinces. That is the crux of the question.

Mr. St. Laurent said that the position of Quebec is not clear. During the many sittings of the Co-ordinating Committee, and I can say, since the opening of this Conference, the stand of Quebec, on fundamental points, has always been made evident. What are these fundamentals? We have mentioned them time and over again: Firstly, the federal system cannot be encroached upon. Secondly, the Canadian Constitution is a pact which cannot be amended, except through the unanimous consent of the contracting parties, or at the very least, the unanimous consent of the four pioneer provinces, Upper and Lower Canada, now Quebec and Ontario, and Nova Scotia and New Brunswick.

Thirdly, the rights, prerogatives and liberties of the provinces, concerning education, social legislation, civil rights and property, etc., etc. . . , must be at all events completely and fully respected and safeguarded.

We were born a long time before Confederation and we had sacred rights before the Canadian Constitution recognized them. Ottawa got its rights from the Constitution, but we had them before.

Quebec will always be pleased to co-operate to the weal and the prosperity of the country as a whole and of all the provinces. We are willing to help, in a reasonable, sound and Canadian way, the federal government to face its difficulties. For Ottawa to collaborate, is for the provinces to hand over to the federal government their main sources of revenue. That is not the way we understand co-operation. As we see it, one of the best ways for Ottawa to overcome many of its difficulties would be to reduce federal expenditures. They do not seem to think about it at all. **I am not criticizing; I am only suggesting** good methods which, to my mind, are appropriate, because they do not interfere with the fundamentals of the Constitution.

The province of Quebec is willing to consider a clear, precise, iron-clad and absolutely fair agreement to rent to Ottawa, evidently temporarily, the personal income tax and the corporation tax having nothing to do with the natural resources of the province. We think that if Ottawa wanted to look at the situation in a broad way, in a Canadian way, it would have to admit that by so

doing, the province of Quebec is giving a positive proof of its sincere desire to co-operate to the well-being and the prosperity of our country during these difficult days. I sincerely think that is fair enough, even more, generous.

So far as succession duties are concerned, our position has been clearly and always established during the Co-ordinating Committee meetings, in our brief and during the present sittings.

The deliberations, discussions and explanations connected with this Conference have been going on for months. We came to Ottawa every time we have been asked to attend the sittings of the Conference. Every one should realize that our provincial duties are of the utmost importance. A provincial government is as important, in its own field of activity, as is the federal government in the Ottawa field. The sittings of the Conference in Ottawa are much more convenient for the representatives of the federal government than they are for us. I regret having to say that there seems to be a lack of good will on the part of Ottawa. I am in Ottawa since more than a week and we never had a night sitting. For instance, the House did not sit last night and, nevertheless, the Conference did not hold any sitting. Why? We are willing to collaborate but, collaboration means good faith on the part of everyone. Whatever the reasons, and I must confess that my impression cannot be too good in this respect, the lack of night sittings has delayed the work of the Conference, and, to a certain extent, paralysed the administration of the province of Quebec. I do not think it is fair.

Briefly, Ottawa is saying to us: we have decided that the provinces should be killed, but we are kind enough to make them choose the kind of a death they prefer: being hanged, being shot, being poisoned, etc. Obviously, it is not necessary for me to declare most emphatically that this situation cannot be accepted.

After the eloquent but uncompromising attitude of Mr. King and of Mr. Ilsley, we do not see how it is possible for Quebec to arrive to what they call an agreement. To my mind, it could not be an agreement, because it would mean the definite achievement of legislative union and we are most strongly and definitely and irrevocably against that.

Mr. ST. LAURENT: I do not want to make another address, but I should like to ask the Premier of Quebec what the rental would be that he would be prepared to consider for retiring from the income and corporation tax fields for a temporary period? Would he answer to that?

Mr. DUPLESSIS: With pleasure. I am pleased to repeat what I have said before. I said before that if there is to be a temporary agreement this agreement should take into consideration the necessity of decreasing federal expenditures and taxes. I drew the attention of this conference to certain injustices which I pointed out when I submitted a telegram I had received from Mr. Charpentier, general president of the C.T.C.C., showing the situation which confronted us in Quebec, when we were called upon to increase the salaries of teachers. These increases largely benefited Ottawa. Indirectly, it is a tax against education and it should be remedied.

So far as the natural resources of the province are concerned, I said time and time again that the corporation taxes which have to do with natural resources should be taken into consideration in arriving at a specific agreement.

It is the considered opinion of Quebec, based on the opinions of highly qualified jurists, that the natural resources of the provinces belong exclusively to the provinces, that they constitute exclusive provincial property, to such an extent that federal borrowings do not affect them.

With regards to a fair rental, I say that, first of all, we insist on an iron-clad guarantee that we are not giving away any of the rights of the province, but that we are only renting some of them under very precise and definite conditions. That means that after the temporary agreement is over Ottawa has to get out

of the field in such a way that we can fully enjoy the taxing rights which are recognized to us by the Canadian Constitution. Moreover, Ottawa should clearly, precisely undertake to collaborate speedily with the provinces in establishing most fairly and definitely the provincial field of taxation and the federal field.

In short, a definite clarification and demarkation between Ottawa and the provinces, Quebec in particular, with regards to taxing powers, and all this, based on the Canadian Constitution and taking into account the past, the present and the future. This cannot be done overnight, but it can be done quickly enough. We would not be satisfied with an answer that it will be considered. Mr. Chairman, I am fifty-six years of age, and I heard a lot of men in public life saying that requests would receive the best consideration of the government. I do not want consideration, I want action.

The rental is certainly important and essential, but our right to live and our power to exercise our right to live are even much more important. The rental should be fair to Quebec, fair to every one. I expressed many times my opinion with regards to the 1942 Wartime Tax Agreement and I do not think it is necessary for me to repeat this opinion here today; but I say that in fixing the rental, consideration should be given to the value of the rights leased out and not only to the partial exercise of the rights by the provinces.

By the 1942 Wartime Tax Agreement, British Columbia got 10 per cent and Quebec got 5 per cent. I do not begrudge British Columbia its 10 per cent. I am happy for them that they have a clever Premier, but when an agreement was made, British Columbia got 10 per cent,—and I congratulate Premier Hart on this achievement—, I do not see why Quebec got only 5 per cent.

Briefly, the value of the provincial rights rented should be taken into consideration when it comes to appraise the price of the rental.

Besides, during this transitional agreement and before a definite and speedy clarification of taxing powers is arrived at, Quebec wants to have a clear and definite field of taxing powers not hampered by any intrusion, invasion or trespassing by anyone; this provincial field of taxing activity must also be clearly defined and fully respected. I hope this is clear to all.

Mr. GARSON: It is not my intention to speak at any length at the moment, but I must say that, after what I have heard in the last ten minutes, I find my equanimity rather disturbed and I am inclined to question my own intelligence. I say that because I thought, and I am sure, that most of the provinces were of the view, that when the meeting took place last August, followed by another meeting in November and still another meeting in January and February, and finally we had the discussion during the present conference, in the course of which the dominion brought down certain proposals, the situation would be clear. There was a long discussion concerning the rental of \$12 per capita per annum to the province with the result that at a subsequent meeting the dominion brought down a figure of \$15 per capita. Then the discussion veered to other matters such as the one that has been the topic of pretty strenuous debate during the last few days, that is to say, what is to happen with respect to the minor fields of taxation, which in the case of Manitoba would be of little value.

I had assumed that all the provinces had accepted a figure of approximately \$15 per capita as the dollar rental value for these fields of taxation. I agree with Mr. Duplessis that in drawing up a lease, particularly a lease of this kind, it is of the highest importance that the constitutional privileges and rights enjoyed by a province such as Quebec, not only since Confederation but, as he has aptly pointed out, for a long time prior to Confederation, it is highly desirable that particular regard should be had to that aspect of the agreement. I can quite understand that that clause in the lease might very properly be regarded, as he said, as of more importance than the amount of the rent. I would agree with him in that but I do suggest, Mr. Chairman, that, although there are many

clauses in a lease regarding type of occupancy, repairs and so forth, such as we find in ordinary leases, and although there may be clauses in this lease protecting constitutional rights, there is one thing that should not be lost sight of. It is this. I have always understood that every lease expressed in dollar terms had to express also in dollar terms the rent. And if the fact now is that neither Premier Duplessis nor Premier Drew, after nine months of discussion, has yet reached an idea as to the amount of rent which they would need, which can be expressed in dollar terms, then it means that all the discussions of the past week on questions of minor fields of taxation and other matters have been to no purpose.

Surely until we know what is the difference between the amount which the Dominion is prepared to pay in dollars and the amount which the provinces—the whole nine provinces—are prepared to receive in dollars, and an agreement can be reached on that point, which is certainly an indispensable clause in any lease, there is no use discussing fields of taxation such as parimutuel betting, amusement taxes, the tax on gasoline of three cents, which I suggest would be, in four, five or six provinces, of little value if they did have them to-morrow, so far as producing any great amount of revenue is concerned.

It may be that I am somewhat dull in understanding these formulas, but I had understood, up until the time that the keener mind of Mr. St. Laurent got up to discuss the matter, that the reason we had passed the discussion of the dollar rent and had got on to the other clauses of the proposed lease was that there was substantial agreement at that level on the part of the two larger provinces.

I am wondering whether Mr. St. Laurent is not perhaps placing a wrong interpretation on the attitudes of Ontario and Quebec. I do not know of any item of information that would be of more general interest to all the provinces at the present time than a clear statement as to precisely what dollar rent these provinces think they should have.

After all, we have been discussing these questions for a period of nine months and I think we ought to have reached an understanding on this point. If that main difference cannot be bridged, then I think I would agree with Mr. Duplessis, that we are spending our time to little purpose. Although I do not know of any item of provincial business that is of greater importance to us and on which we can spend our time more profitably than the consideration of this matter—in spite of that fact, I say, if all we can do is to discuss a number of minor details, and there has been nothing approaching agreement on that item which, if it is not the most important, is certainly at any rate the most indispensable, we are certainly spending our time to little purpose.

Mr. HART: Mr. Prime Minister and gentlemen, I think it is somewhat regrettable that certain sources of revenue cannot be allocated for the exclusive use of the provinces.

British Columbia's case is somewhat different from that of the other provinces, and I think I might make a reference for the purpose of clarifying it this morning. When British Columbia entered into the agreement that is in existence at the present time with the dominion government, the amount paid to the province at that time was equal to a per capita of \$17.55, and consequently that province could not accept the proposals as submitted, so far as the per capita basis is concerned.

However, the province submitted what we considered was a very fair and reasonable formula which could be applied as the yardstick in measuring a reasonable amount that should be paid to British Columbia.

There is certain information we have asked for; that information in all probability cannot be supplied to us for last year or this year; but I submit that information for the year, say, 1944 should be in possession of the Department of Finance, and if that information is forthcoming and placed at our disposal

we shall be happy to have our experts sit down with those of the dominion and arrive at a reasonable sum which could be accepted as the annual payment to British Columbia for the three-year period.

Let me say, Mr. Prime Minister, that on that understanding the province of British Columbia is prepared to sign an agreement now. I think, sir, that it would be a calamity, after nine months of study, if we came here and failed to reach an understanding. I think a greater effort should be put forth in order to straighten out and clarify some of the details that seem to be in doubt this morning, and for that reason I would move that, after the various premiers here who wish to speak have done so, we go back to the co-ordinating committee for further study of these different items that seem to require further clarification.

Mr. McNAIR: Mr. Prime Minister and gentlemen, I have not for some time had any illusions as to the situation in which this conference would ultimately find itself. I realized as well that in all probability nothing I can say at this stage would tend to dissolve the impasse which now obviously exists.

I wish, however, to make a few observations particularly as bearing upon the future course of events. I shall be very brief.

Much of the criticism levelled at the dominion's proposals centered around the constitution and the alleged threat to the constitution. These objections were advanced notwithstanding that the proposals, except as to one modest suggestion which I believe will be dropped if the provinces wish it dropped, are entirely free of constitutional change.

I feel that no one sitting at this table can speak with greater feeling or sincerity than I on the need of maintaining the constitution inviolate. In saying that, I have in mind the acute constitutional controversy which developed at the Dominion-Provincial Conference of 1935. At that time New Brunswick stood alone. Our position in constitutional matters remains unchanged. In this connection may I quote a passage in my submission to this Conference at its opening session last August, I have in my hand the report of the proceedings of this Conference of August 6, 1945, and I am quoting from our submission at page 26:—

To avoid misunderstanding let me affirm an unfaltering belief in the wisdom of those responsible for Confederation and in our federal system of government. A rational distribution of legislative and executive power in our land is as necessary to-day to our mixed social, cultural and political situation, as at any time in our history. While admitting that, with the lapse of time and the growth in governmental functions, some adjustments in jurisdiction between the dominion and the province may be necessary or advisable, I believe that for the most part present-day problems can be solved within the framework of the constitution. I question the wisdom of those who would approach an adjustment of Dominion-Provincial relations, and the tasks of reconstruction, with a blueprint calling for a wholesale re-writing of the British North America Act. Such is to my mind unnecessary; to attempt it, unwise.

On the other hand one should not recognize provincial autonomy, so-called, as an end in itself. It may easily become a fetish, a catch-cry, or cloak for regional, or sectional, advantage and privilege. The primary end of all government in Canada is the welfare of the people, theirs the sovereign interest. If we are minded to build a strong and virile nation none of us can ignore the needs and welfare of all Canadians, in whatever province they may be found. This involves, of course, due protection for certain minority rights.

The main criticism directed against the Dominion's proposals from the outset has been that they contemplate a working plan of government in Canada entirely at variance with the intentions of those who framed Confederation. Mr. Chairman, the written records of those earlier days may afford fertile ground for conjecture as to the thoughts and hopes of the Fathers of Confederation. But of this I feel sure: They never envisaged the possibility that eighty years after the Union was created, at a meeting such as this, the citizens in the different provinces would be talked about as though they were so many different peoples.

My greatest disappointment at this Conference has arisen from that fact, from the realization that we are not yet able in this country of ours to weigh and assess the rights and needs of our people from ocean to ocean with the common denominator of a common Canadian citizenship.

I wish to make it clear that I am not here to ask consideration for the people I represent because they live in New Brunswick. I base my case for them on higher ground, on the fact that they live in Canada, and as Canadians are entitled to a fair show and a square deal at the hands of their fellow-Canadians—nothing more, nothing less. This is how I put the matter in my submission to this Conference last August, and I am again quoting from the report of the proceedings at page 26:—

We in New Brunswick ask for no privileges, benefits or advantages that we are not prepared to share with our fellow-Canadians. We feel it is proper to expect reciprocal treatment.

As I see the matter, the problem which to-day confronts Canadian statesmanship in connection with the constitution, with its division of legislative, administrative and taxing powers, is to relate our governmental operations under it to the social and economic conditions of the times.

Let us not forget that the social and political philosophy current in so many lands to-day, including our own, would have appeared strange doctrine to the Fathers of Confederation. Great changes have taken place in the scope of public business since their day. Services never dreamed of by them have become the concern of governments. The field of public administration is still growing and will continue to grow.

Out of the crucible of world conflict, two wars in our generation. Canada has emerged as a nation in every sense of the word. To-day we are faced with two tremendous tasks. One is the task of rehabilitation and reconstruction—with all that those terms denote—rehabilitation and reconstruction at home that the people of Canada may attain the fullest possible measure of security and all related benefits and amenities that will add to their strength as a united nation.

The other task, allied with the former but even more important, is to fit our nation to play her part with the other freedom-loving peoples of the world in shaping and maintaining a world order of stability and security and a world organization for the preservation of peace.

I am reminded, sir, that in our deliberations the other day someone observed that Canada may well prove to be the main battleground of another war, if it comes. Surely in that thought there is ample food for sober and sobering reflection.

I believe this, that in the Constitution they bequeathed to us the Fathers of Confederation gave us the tools for good government in this country. It is because I feel that the Dominions program is, on the whole, the best plan yet proposed to advance the job that I find much in it to support.

It has been urged against the program that it constitutes a threat to provincial autonomy. Again let me say that we in New Brunswick are just as jealous of our constitutional rights and privileges as are the people in any other province. But we want autonomy in substance, as well as in name. We look upon provincial autonomy as a means to an end—not an end in itself. We look

upon Dominion autonomy in the same way. The end to which they should be devoted, through their proper exercise is the greatest good for the greatest number of Canadians.

Our experience in New Brunswick has been that the interplay of the various forces connoted by provincial autonomy and Dominion autonomy has worked against, rather than for us.

For a variety of reasons connected with the premises our provincial economy has for a long period of time been in a depressed state. The forces which have caused such conditions are, for the most part, quite beyond our control in New Brunswick. Geography and national policy, with a monopolistic competition and control resulting therefrom and centred elsewhere, have been the basic factors contributing to those conditions.

We have seen others grow rich—in large measure at our expense. Great areas of natural resources in which we felt we had a proprietary interest were given to others, without consultation with us or compensation for us. Now, for a change, we are asking that some form of national policy be framed that will benefit us. It was because the Dominion program appears as an attempt in that direction, and a possible instrument to remedy many injustices, that it held an intriguing interest for us.

Let me say that I can quite understand the antipathy of some of the Provinces to the Dominion's proposals and their determination to maintain the status quo. Their position in the matter will, I feel sure, find little support in New Brunswick. The proposal advanced by the representative of one province to abolish all federal subsidies, will, I am equally sure, find less.

I regret that it has been impossible to obtain during our discussions around this table here any agreement on a plan which would ensure some special financial assistance for the needier provinces. I advanced a suggestion in that connection which I still feel had merit in it. It was acceptable to the Dominion. It would have meant some financial loss to some other provinces—probably two. But the representatives of both those provinces were already on record as wanting to do something for the provinces in need.

May I suggest, Mr. Chairman, that the present state of this Conference comes as no complete surprise to me. Against just such a possibility I made bold last August to indicate the course which, in such an event, I felt should be followed. I shall read again from our submission to the first plenary session of the Conference, at pages 26 and 27 of the official report of proceedings:—

I am quite hopeful that much may be accomplished, at this Conference, through general agreement, to promote the interests of all the people of Canada on a basis of equity, fairness and fair play. That method is altogether desirable.

At the same time I feel constrained to say that in my view the destinies and fortunes of those I represent should not be made to rest upon the actions or attitudes of a government or governments having no jurisdiction over their affairs, nor responsibility therefor.

In short, the people of New Brunswick will not be content to pin their ultimate hopes for correction of the disadvantages under which they have long been suffering on the sole prospect of reaching final conclusions on all material matters in a gathering as complex as this Conference.

And holding the view that, widely speaking, our needs are financial and that our social and economic problems can be solved within the present frame-work of the Constitution, I do not think that the need for unanimity of decision is absolute—desirable as it unquestionably is from a broad Canadian viewpoint.

I went on at that time to indicate the measures which in my view the Dominion should take to deal adequately with the postwar conditions in Canada. I quote again from page 27:—

Let it be remembered again that the control of all matters national in their scope and which affect most vitally the social and economic well-being of the people in the provinces, is now vested in the central government. I have already mentioned the main items. The chronic unbalance in the Canadian economy with the heavy concentration of industrial, commercial and financial power in certain favoured areas, is due to the play of forces under the control of the dominion parliament and government, since Confederation. That situation is capable of being remedied, and only remedied, through national policy.

Unquestionably too there is an extensive field in which the dominion and provinces can alike function. By the express language of the British North America Act, concurrent jurisdiction is given them over agriculture and immigration. Apart from this, the recent adoption of the family allowance plan indicates how widely the dominion may proceed in the implementation of social security measures which the provinces individually might themselves adopt, if financially able.

On the other hand, there are numerous matters over which the provinces have an unquestionable exclusive jurisdiction. Governmental services in relation to them are constantly expanding. The costs of administration are continually growing. With our restricted economic development in New Brunswick, our problem is to finance such services, to the end that our people may enjoy them on a scale commensurate with what prevails in other sections of Canada.

Here again the dominion has adequate power to meet the needs of our provinces, as well as others. With its control of monetary policy, and the broad and unlimited powers of taxation it possesses, the dominion is in a position, drawing upon the resources and tax-bearing capacity of the whole nation, to see to it that the provinces are placed in a position to maintain their local services at appropriate and uniform Canadian levels. No constitutional amendment is necessary to bring about that measure of justice.

It is because the Dominion's proposals follow so closely the pattern of action therein suggested that our province has found so much in them to commend. I still submit that they are capable of improvement. That is a matter, however, which rests with the Dominion government.

In closing may I add this, that we in New Brunswick will expect the Federal authorities to give full consideration to all matters which have been involved in these discussions. In 1941, after the failure of another Conference, they proceeded to take appropriate action to meet the needs of the war period. In my view there are reasons just as cogent and compelling for similar action to-day. They must now become arbiters in these matters. They have all the powers needed for the purpose. While at the moment the world is enjoying a fitful peace, great problems of the post-war world face us, in common with all nations. One of those problems, and the greatest, is to guard against another world conflict, which might well prove the end of civilization as we know and cherish it. For that purpose our country needs the fullest measure of national development.

The Canadian Parliament is our great national forum. We are entitled to look to it for guidance and leadership in these great affairs which have been under discussion, and I feel sure we shall not look in vain.

Mr. JONES: I feel that if I had another friend at this table we might be able to come to some conclusion yet. A farmer using instinct and common sense does the same as a woman does sometimes in arriving at her objectives; and for myself, I have never yet seen where a council made up of a majority of lawyers ever arrived at a very satisfactory conclusion. We might go on for years. Looking around this chamber I see at least nine gentlemen with legal training; I think that accounts for a good deal of discussion. Down in the Island they elected twenty of my followers and there was not a single lawyer among them. When we had to do talking we had to hire the lawyers, and it was a much more satisfactory way. I believe that if we got together with no one listening, no newspapers, and no public, and talked among ourselves, a solution of this thing could be worked out; and I would like, Mr. Prime Minister, to second the motion recently made by the Premier of British Columbia. It was this: "That this Conference adjourn and go back to the Co-ordinating Committee for the purpose of further discussion and clarification of some subjects, and that the Co-ordinating Committee report back to this Conference."

Mr. DREW: Before we vote on that motion I should, I assume, reply to the very extensive remarks made by Mr. St. Laurent this morning, and directed particularly to the statement of the Province of Ontario, and in doing so, I will conclude with some remarks in regard to the motion which is now before the Conference.

Mr. MACKENZIE KING: Just a moment. I understood when the Premier of British Columbia spoke that his motion should not be put until other members who were present had spoken, and when they had concluded saying what they wished to say the motion could be put. I think that that should be understood; otherwise I as Chairman would have to put the motion immediately. What I am suggesting now would meet Premier Drew's desire to continue speaking before the motion is put, and any other premier who wishes can also do so.

Mr. DREW: There are some observations I would like to make, both in regard to the comments that have been made by Mr. St. Laurent and by others at this conference table this morning.

With his customary charm, Mr. St. Laurent said precisely the same thing, in more conciliatory terms, as we heard yesterday morning. There were some amplifications and some references to viewpoints expressed on behalf of the Province of Ontario to which I should refer. But before mentioning those particularly I feel that I should deal with one or two other points, because I think it is essential that we keep not only the minds of those attending this conference clear, but that we keep the public mind clear as to exactly what has taken place. For that reason I wish to refer back to one or two statements which have been made. In doing so I mention those statements in no sense of criticism, but only exercising the right which must be exercised around this table to discuss frankly the points that are raised, if there is to be either understanding among ourselves or understanding in the public mind.

The statement was made a moment ago that antipathy had been displayed by certain provinces to the Dominion proposals, and that antipathy could be understood. Listening to some of the comments made here this morning, I cannot help wondering if everyone has yet fully grasped the fact that every province here has now stated without reservation that it is prepared to evacuate the great fields of income and corporation tax under a temporary agreement, which was the fundamental basis of the Dominion proposals, and that the only discussion which has been taking place is in regard to the necessity for clearly defined fields of taxation for the provincial governments to maintain their financial and administrative responsibilities in those very heavy fields of administrative responsibility which under the constitution they carry out or no one carries out.

In that respect, may I interpolate here a comment which is made only to remove any suggestions which may have been conveyed by a press report, which I know was not made with any intention of conveying a wrong impression but which, through the very abbreviation of reporting, might convey a wrong impression. It was suggested that in my comments yesterday I had compared certain action here to the action of Hitler. Everyone who sits here knows that is not true. What I did say was that those who express a lack of any concern about the dangers of centralization might well read "Mein Kampf" and find there the emphasis which was placed upon centralization as a means of gaining power over the whole state; and it will be recalled, I hope, that I coupled that remark with the statement that I was not dealing with the individuals who make up any government now represented at the moment, but that the one thing sure about governments was that they are not permanent and that the agreements we reach must be agreements which will be effective in preserving our rights in relation to any government which may be in power within the term of any agreement that we enter into. I do that because neither here nor outside would I wish the impression left that I had in any way compared Mr. Ilsley's conduct with that of a man who stands for the very embodiment of evil in the minds of people everywhere. I do hope that that will be clearly a matter of record.

I want to pay tribute to the energy and the sincerity of purpose which Mr. Ilsley has displayed in his task, and to express some concern that his task is made so difficult by the very fact that the federal structure which exists does not leave him free to devote his whole energy to the national job. I have emphasized before, but I emphasize again, that a very clear and integral part of our representations has been the argument that we need strong national government, that we need strong and vigorous national government, yes, that we need stronger and more vigorous national government, which can best be achieved by the national government divesting itself of the accumulation of administrative responsibilities outside of their normal and proper constitutional sphere, and leaving in their own hands only these things which are of an essential national and external character, and leaving to the provinces those things which are of local concern and which through decades of experience they are well trained to administer.

For the moment I wondered if Mr. St. Laurent was going to get a bit of paper out on the table here, put lines up and down, and then two lines across, so that we could start a game of "X and Zero". This game of playing with "X" has become, apparently, quite a fascinating pastime. I must confess I would have thought that the formula was extremely simple, and I would point out that there is nothing more uncertain about a formula which frankly starts with the fact that the money figure is "X" and then seeks to work it out on a known basis, than to pretend you have got a known basis, when the component factors are unknown. And that is the difference between the two proposals.

What we have said, and it seems to me a perfectly logical proposition, is that we have undertaken to vacate these enormous fields of corporation and personal income tax for the life of a transitional agreement, provided that we have assured to us taxing powers which make it possible for us to determine what we can, with reasonably projected arithmetical accuracy, raise out of those fields for the purpose of our anticipated budgets. Until we know what fields are going to be left open to us, not only those six fields but other fields as well, by the assurance that the Dominion government will not enter other fields of direct taxation, no person who is arithmetically honest can pretend that he can compute with accuracy what an adequate compensating figure will be.

Mr. St. Laurent said that some doubt was left as to whether X, which is to represent the dollar value per capita upon which the computation is based, was or was not to be a figure applied uniformly across Canada. My answer is Yes. My answer is yes in every case. My answer is yes to British Columbia.

My answer is yes to Saskatchewan—to Alberta, to Prince Edward Island, to Manitoba, to Nova Scotia, to New Brunswick, and to Quebec. And it seems to me that there can be no other basis which will make it possible for the premiers of the provinces here assembled to go back to their respective provinces and tell their people that they signed an agreement which they know is not going to be subject to those very dangerous things which Sir Wilfrid Laurier pointed out in some comments I quoted yesterday.

Now, to any suggestion that this would limit the return to any particular province, may I say that in the case of Prince Edward Island I would be the first to ask that there be a special addition to that, to take care of their special needs—but a special addition which would be related to the uniform, basic figure for the whole of Canada. And to the province of British Columbia I would say that we are here, as has been said this morning, neither as citizens of British Columbia nor as citizens of Ontario, but as Canadians first, last, and all the time. And our desire for the success, the happiness and the welfare and for the tremendous expansion that lies ahead of British Columbia is hardly more in the minds of the people of that province than it is in the minds of the people of Ontario.

We want any agreement which is signed to be to the advantage of British Columbia, and adequately to secure its financial independence. But we would find it extremely difficult to explain upon what basis we had arrived at a computation of a compensatory factor for the taxes which we give up, if we informed our people that we had accepted a different figure per capita in compensation for those taxes than had been offered to and given to British Columbia.

The simple truth is that the value of those taxes is not different in Ontario. It is not different in Quebec. It is not different elsewhere. The fact that one province may have imposed a higher percentage within that taxing field at a given time, and at the same time have imposed a lower percentage tax in some other field of provincial taxation does not for a moment mean that by that accident of balanced percentages they had established there, for all time, the value of that tax field. We are quite ready to place a value upon that tax field, just as is British Columbia, and upon the same basis.

May I make this very clear, that we have not at any time in this conference, from the time we met, based our arguments upon an increase in the amounts to be paid to Ontario—not once. The fact of the matter is that there was some measure of criticism because the proposals we made in January did not include any figure of payment at all, but provided for the return to the provinces of that field of their taxing power which had been assured to them under the 1942 agreements, and under a plan mark you, which meant no double taxation and no increase but, if anything—and if possible—a decrease in the total to be collected in those tax fields by the two governments. So I would not wish any remark made by Mr. St. Laurent this morning to leave the impression, nor should I like to leave unchallenged any suggestion that any of these changes made by the dominion government have been based upon demands of ours in regard to the figure which would be paid.

I think the premier of Quebec put his finger upon one of the vital factors which is causing us some difficulty in arriving at final agreement, at the present time. The truth is that instead of there being any wide chasm to bridge, we are very close together. In spite of the importance of these fields to them, Ontario and Quebec have indicated that in the interests of national agreement they are prepared to forego fields which accounted for nearly three-quarters of the total tax collections for the whole of Canada last year, in return for certain things.

That is a great concession which has been made. And certainly, speaking on behalf of Ontario, I am claiming no special credit for Ontario in that regard. I only say that in actual dollars and cents the concessions made by Ontario, and correspondingly by the other provinces in relation to their taxing power, are greater than any balancing compensation they have asked to be set up against them.

And when I said that the premier of Quebec had placed his finger upon one of the vital factors standing in the way of reaching an agreement, I was referring to his emphasis upon the fact that what we are really seeking is a new tax agreement of a temporary nature in substitution for the war tax agreement, which automatically comes to an end because of the declaration by order in council of the termination of hostilities as of last September.

Gentlemen, I think it will help us to reach the agreement, which is so essential, if we realize that most of the beclouding difficulties which still exist between complete settlement, and the position we have reached, lie in the fact that we do not proceed simply to substitute for one tax agreement another tax agreement to deal with the same problem.

This may be wisdom after the event, but if we had proceeded last August to recognize that our problem was fundamentally a problem of finding a substitute agreement for the war tax agreement which was automatically to expire, and if we had proceeded to deal with that problem first and by itself, I believe we would have reached complete and unanimous agreement long ago.

What has led to the increasingly wide circle of discussion has been the introduction into that relatively simple problem of a great number of projected promises in fields which were in no way directly related to the tax agreement which was coming to an end. And for that reason, so that our position may be clear, I want to place upon the record, in view of the attention which has been paid to the position of Ontario in the remarks delivered this morning by Mr. St. Laurent, a letter which I wrote the Prime Minister of Canada on January 6, 1944—nearly two and one-half years ago. I pointed out then the very difficulties which now present themselves. I read this letter to-day only to the extent that it may indicate what is standing in the way, to some extent, of ultimate agreement here. This is the letter:—

TORONTO 2,
January 6, 1944.

Rt. Hon. W. L. MACKENZIE KING,
Prime Minister of Canada,
House of Commons,
Ottawa, Ontario.

DEAR MR. KING,—Since returning to my office, I have had the opportunity to read a number of speeches made by dominion cabinet ministers referring to plans that are being made for post-war employment and reconstruction. I find that in most cases they refer to fields of activity which would ordinarily be under the exclusive jurisdiction of the provincial governments.

I need not say that we are most anxious to co-operate in every practical measure which will assure effective post-war planning and the prompt rehabilitation of the members of our armed forces. I believe it is extremely important, however, that where it will be necessary to obtain the agreement of the Provincial governments in regard to the joint occupation of fields of legislation ordinarily under their exclusive jurisdiction, there should be previous discussion so that any measures introduced will be on a basis agreed upon in advance.

At present, there are agreements in regard to health and education awaiting adjustment between the Dominion and Provincial governments. I believe that it is very difficult to deal with these or with any other similar agreements until we have reached some understanding in regard to the present and future constitutional relationship of the various governments.

I would therefore urge that a Dominion-Provincial Conference be called at the earliest possible date to consider the broad question of post-war planning and reconstruction. Not only is this necessary for the purpose of determining the basis upon which the Dominion and the Provincial governments will co-operate, but it is also necessary for the purpose of considering the subject of taxation in relation to these measures.

I believe it is of the utmost importance that such a conference be held before any measures are introduced either in the Dominion parliament or the Provincial legislatures, which call for ultimate agreement between the Dominion and the Provincial governments. We will be prepared to send representatives to a conference of this nature at such time as will be convenient to you, but I do urge that the conference be held at the earliest possible date.

Yours sincerely,

George A. Drew.

I suggest an adjournment until after lunch.

Mr. MACKENZIE KING: We shall adjourn until half past three.

At 1.05 p.m. the Conference took recess.

AFTERNOON SESSION

The Conference resumed at 3.30 p.m.

Mr. DREW (resuming): Mr. Chairman, at the time we adjourned I had just read into the record a letter written on January 6, 1944, two and one-half years ago; and I had done that to indicate where I thought some of our present difficulties lie. I had pointed out at that time that I felt sure it was essential that there be consultation between the dominion and provincial governments before any commitments were made in regard to any matters falling properly either within the provincial field or the joint dominion-provincial field.

That is, I suggested that they should be discussed between the governments, before being made public, because of the fact that obligations in both fields would necessarily be incurred, if those promises were to be carried out.

We are now faced with the statement that it is essential for the dominion government to have very large revenues because of the undertakings they have given. Every one of us in this chamber recognizes the heavy financial and moral obligations owed to the men and women who served during the war. We recognize, too, the heavy financial and moral obligations to those who provided the necessary money to carry on the war; as well as the heavy financial and moral obligations to the people of this country, in certain fields of their ordinary activities.

But I would recall that, in addition to those obligations created by expenditures on war itself, and the continuing financial obligations which that entails, and the financial obligations arising from the demobilization, rehabilitation and pensioning of members of our armed forces who are injured, as well as

the amounts required for the maintenance of military, air and naval establishments for the future, together with the ordinary functions of government—we realize that beyond all these are obligations which have been incurred since that time, since January 6, 1944, to the extent of many hundreds of millions of dollars, in regard to which no province was consulted in advance.

Now we meet here in dominion-provincial conference and we are told that it is essential that due regard be had to the extent of these obligations in the course the provinces will follow. It may be that the dominion government is committed to the continuance of those obligations it has undertaken, a point which means that they must carry on.

But since we are now discussing this point may I urge, with the utmost earnestness and the utmost vigour, that no commitments be made, and that no further promises be given to the public such as we have had, even in these past few months—commitments which dazzle new visions in front of the public, and create new appetites which are extremely costly to satisfy; and particularly that no new promises be made lightly by any dominion cabinet minister in regard to those fields which are in fact fields of provincial jurisdiction.

I refer particularly to the field of social services which, at the instance of the Prime Minister of Canada himself, was declared by the privy council to be the field of jurisdiction of the provincial governments. It may be possible that the hundreds of millions of dollars to which the dominion government has already committed itself in these fields must stand as commitments. But certainly future conferences, as well as this one, would be greatly aided if the advisability of consultation in advance before new commitments are made, either in joint dominion-provincial activities, and particularly in the provincial field, was carefully considered.

I think right now we would proceed very much more quickly to agreement if some of these very general and still undefined proposals which are to be financed by a separate method of financing were to be kept on another basis of discussion until we had settled the basic agreement. I refer to that because of the suggestion made more than once that all these things must be considered as an integrated whole.

By all means let us consider every subject which has now been discussed; and as I said yesterday, in considering those other subjects not included in the matters we are now discussing, let us always be sure that the public knows that they are to be financed by an additional income tax and poll tax.

Mr. CLAXTON: A small part.

Mr. DREW: Very substantial. In Ontario the proposal you are making would cost the provincial government alone—let alone the cost to the taxpayers and the government—an additional \$50 million.

Some time was taken this morning in discussing the suggestions Ontario had made. I wish to refer only briefly to the statement made by Mr. St. Laurent that there was no reason to suggest that there had been a joker in the original proposals, because the arguments put forward yesterday were as they were put forward by the Minister of Finance.

I wish to leave no doubt as to what I meant when I referred to this additional joker. We were told on August 6 last, and we have been told at every time until yesterday morning, that we were discussing only a temporary agreement. And yet every argument put forward yesterday morning by the Minister of Finance in support of exclusive occupation of the fields of personal and corporation income taxes was an argument which if it were valid at all now, would be just as valid at the end of three years from now.

His argument, in a nutshell, was that in the modern economy in this modern world in which we are living, the central, national government must for several

reasons control those taxes. And I say that that argument yesterday morning should have ended by reference to the intention that the dominion government would continue to occupy these fields.

Nevertheless, even with that disclosure, and subject to the acceptance of the conditions which we put forward, as to the clear, statutory and contractual undertaking that our future rights would in no way be affected by any temporary agreement we were now to sign, and subject to the undertaking that there would be a full and complete examination of the whole taxation system for the purpose of finding a more efficient, simpler and more equitable tax arrangement by which all the governments would have their own clearly defined and clearly stated tax fields—I say that subject to those conditions and subject to the express proposals we put forward on Monday, we definitely stood by our undertaking to vacate, for the term of a temporary agreement, those two great tax fields with their enormous revenues.

This morning Mr. St. Laurent in very gracious but nevertheless strong terms took issue with me for having used the expression that there is a question of good faith involved. He went on to say that surely a proposal to make this temporary agreement implies no lack of good faith.

That was not what I said. What I said was that we had to be extremely careful now as to what was intended at the end of three years, in view of the clear and explicit undertaking in Mr. Ilsley's own statement in April of 1941 that there was no thought of the dominion fully occupying those tax fields permanently, and that succession duties particularly were excluded, contrasted with his statement of yesterday morning.

My point is, that having regard to that changed viewpoint, and having regard to the fact that he now uses very clearly an argument which could only be a cogent argument if it were to be applied three, four or five years from now—having regard to this, we have to be perfectly sure that there shall be no question about the preservation of the position of the provinces in any agreement which is entered into.

Both Mr. Ilsley and Mr. St. Laurent in their statements spent some time in speaking about "X"; and they are not the only ones. Again, I do not know whether or not I should be unduly flattered, owing to the fact that about 90 per cent of the time that was devoted to the discussion of provincial proposals was devoted to Ontario, just as though we were the only ones who had any different viewpoints. Of course that is not the case.

The fact is that I said I believed any one with a pencil and paper, in view of what we had said, could work out what X was. I said it was perfectly clear that we were asked to make the great concession of vacating our rights in those major tax fields, that we were prepared to do that, and that we had said that we asked the dominion government to vacate those minor direct taxation fields: and when we knew what they were prepared to vacate, we could work out X.

I thought it was so simple that that would be ample. However, so that there can be no doubt, I shall be definite about it. Accepting our proposals as they stand, and as they were set out in detail on Monday, and with the dominion government carrying out its side of the undertaking, the figure X is not \$15 per capita, but is \$12 per capita; and Ontario is ready to sign an agreement on the basis of our proposal, with the figure of \$12 per capita.

That is the figure X, the \$64 question. The formula is set out. And then in case it may be said that this would be a uniform figure across Canada, which perhaps would not be fair to all the provinces, let me remind you that the Ontario proposals are that the present statutory subsidies which have been carried forward from confederation be paid outside of that. But I would point out that that is a variable factor across the country.

And just by way of illustration of that point, let me point out that on that basis Prince Edward Island receives an additional per capita subsidy—which they would not get under the dominion proposal—of \$4.15 per capita, while Ontario would get an additional 78 cents per capita. In fact, all the provinces get more than Ontario. And all, except Quebec and British Columbia, get considerably more than Ontario.

So that under our proposals there is a substantial variable factor in the interests of those provinces which feel that they have a special claims. I have said this to remove any doubt in the mind of anyone as to the definiteness of our position. I repeat that our proposals are clear and explicit.

You ask what X is. It is \$12, and we will sign an agreement on that basis.

Then, as to the motion before us, namely one that the conference adjourn into a closed session—I wonder if I might hear what that motion was?

Mr. MACKENZIE KING: That after the various premiers have spoken, who wish to speak, we go back to the co-ordinating committee for further study of these various items which seem to require further clarification.

Mr. DREW: I think the position is now perfectly clear. I shall only remind everyone that it was I who moved that we go into open sessions. I believe that by going into open sessions we have accomplished more—much more—in these last four days, in getting right down to clear and definite principles than we have at any time in the past.

Ontario has withheld no information. Ontario has withheld no aspect of the position it is prepared to take. I hope we have made it abundantly clear that we are here on behalf of the people of Ontario—not representing them merely as citizens of Ontario, but as Canadians, and anxious to work out an agreement which will strengthen the national government of Canada by removing from that national government a number of unnecessary duties which are making their ordinary activities more difficult, and placing back in the hands of the provincial governments those administrative responsibilities which are theirs.

We have asserted—and I believe we are sound when we do it—that with a strong national government dealing effectively with national and external affairs the nation itself will be strong, the provincial governments will be strong and confident and free in their own action to carry out their respective responsibilities.

That is the basis upon which we want this agreement to be reached. We believe we are very close to agreement. We believe there must be agreement, in the interests of the people of Canada. We do not believe it is in the interest of agreement that we get into secret meetings again, and the government of Ontario strongly opposes any move to discontinue this open session.

Mr. ILSLEY: Well, Mr. Chairman, the premier of Ontario has just now stated what the Ontario proposals are, in terms of dollars. Thus, for the first time we have the figure of \$12 per capita. So far as the dominion is concerned, I believe it should at once examine the implications of that proposal, taking into account the formula—the difference from the formula proposed by the dominion, and the other implications.

That is based upon the retention of succession duties, I suppose.

Mr. DREW: I might explain that that offer is, as I said, based upon our proposals. Your offer is based upon your proposals. But I would also point out that when you say that you have only now learned about ours, we only knew about yours when we arrived here.

Mr. ILSLEY: Yes, we made our proposals in the co-ordinating committee last week.

Mr. DREW: Yes, two days ago.

Mr. ILSLEY: If we had had the Ontario proposals in the co-ordinating committee last week I should have been better prepared at this time to deal with the implications. After all, this is Thursday afternoon—and we certainly must have some little time for consideration. We do not need to have a long time, but we have to have some little time just to see what it amounts to in dollars and cents.

Mr. DUPLESSIS: Since this conference began its work numerous rumours connected with it, and which were not based on facts, were spread in certain newspapers. With regards to this conference too many inaccurate statements were made by political propagandists. Even some figures were given by the federal government which do not conform with the facts. When I say that I do not wish to cast doubts on the good faith of anyone.

After the first plenary meeting it was decided to go into camera sittings. I thought it was a good move at that time and that it was necessary and essential. Now that we know fully the position of Ottawa and what we can expect from the federal government I do not see any good reason why we should go back into camera meetings. I think the public, the taxpayers are entitled to know exactly what is happening, what is being said and what is being done. I speak for the Province of Quebec in opposing any suggestion that we return to a procedure of sittings in camera.

Without reflecting upon anyone and not wishing to hurt anybody, I think it is only fair to ask for absolute frankness and logic.

The federal government's proposals, according to Mr. Ilsley's statement, are definite and irrevocable. They were presented as such in the Co-ordinating Committee meetings and at yesterday's meeting. Mr. St. Laurent himself stated that these proposals were fundamentally irrevocable. If I am wrong about this interpretation I wish to be corrected immediately, and I shall be glad to rectify my opinion accordingly.

There is no doubt, however, that Mr. Ilsley's proposals were definite and irrevocable and that they absolutely brush aside our suggestions in connection with taxation powers and with regards to a permanent clarification and demarkation of provincial and federal taxing powers.

Moreover, the federal proposals do not safeguard, nor even recognize effectively, the essential and indispensable rights of the provinces.

Being such, I cannot accept them and we consider them unacceptable. The province of Quebec refuses them categorically, hoping, though, that the federal government will realize the situation brought about by its unmistakably uncompromising attitude.

Mr. Chairman, I was elected in Quebec on a clear mandate to safeguard and protect the federal system and the autonomy of the province. I would be blamed, and rightly so, if I did not fulfil my mandate. As always, I am happy to fulfil my mandate to the best of my limited ability. I am certainly too old to make a change for the worse.

Because we are sure,—while respecting the opinions of others—that the irrevocable federal proposals lead plainly and clearly to centralization, because the federal proposals would, sooner than later, wreck Confederation, because they would establish the reign of bureaucracy as against democracy and parliamentary rights, institutions and responsible government, because we feel certain that the federal proposals, if applied, would create instability and uncertainty, at a time when stability and certainty should prevail, we cannot accept these proposals.

But even at that, we leave the door open for real Canadian co-operation; it does not mean that we are going to remain on the porch, it would be undignified. We leave the door open to come to Ottawa at any time, to discuss in a friendly way, in a sincere and co-operative way, the best possible methods

and means of contributing to the progress and the prosperity of both the country and the provinces, without impairing the system of Confederation.

Mr. MACKENZIE KING: Perhaps the members of the conference will allow me to say a few words about my own position at this conference. I believe it will be recognized that I necessarily act in two capacities.

In the first place I am here as Prime Minister of the Dominion, and as such am immediately associated with my colleagues in the proposals that are being put forward by the federal government. I have been asked on different occasions if I did not intend to participate in the proceedings, if it was not my intention to answer some of the questions which have been raised and to take exception to some of the representations made. I have stated that I felt that, as Chairman of the conference—and this is the other capacity in which I act—I should seek so long as I am at the conference table to observe a position which was wholly impartial, and to allow discussion to take place as largely as possible between the premiers of the provinces and my own colleagues in the federal government.

I want to make these positions quite clear. First of all, I accept full responsibility, with my colleagues for the proposals which we put forward. As Prime Minister I thought I should present our proposals to the conference, as I did on Monday, but as Chairman of the Conference I should not participate in the discussions in reference to them.

As those attending the conference know, during the time I have presided at this table, either in open session or in meetings of the co-ordinating committee, I have done my best to refrain from making any comments upon representations or upon remarks coming from either side of the table, and to proceed as an impartial chairman of the conference.

May I now express my very sincere thanks to the provincial premiers and to my colleagues for having—well, I shall not say “asked” me—but for having permitted me to preside at this conference from the beginning.

Now, as to the matter of adjournment, may I make some brief observations, just to make clear our point of view or attitude. Some government had to take the initiative in calling the conference. We felt it would naturally be expected that the dominion government would call the conference. As a result we extended invitations for all to meet in conference, and we did meet in plenary session in August last.

While we were in plenary session a motion was made by one of the provincial premiers that a co-ordinating committee should be formed, and that it should hold its meetings in camera. That motion was agreed to, with the result that the meetings of the co-ordinating committee were held in camera.

As Premier Drew has just said, after many meetings were held in that fashion, he himself suggested that we should hold further proceedings of the conference in open meeting. That motion was accepted.

Our position has been throughout that we wished to act in accordance with the wishes of the provincial premiers. If it is now the wish of the provincial premiers that the conference shall be continued in the open, then we will be more than happy to continue in the open, as we are doing now. On the other hand, if it is the desire of the provincial premiers that we should meet in camera to conduct further discussions, we are prepared to accept their decision in the matter.

I do not see any other way of deciding what is advisable in this regard than for us, as the dominion government, and one party to the conference, to act in accordance with the wishes of the premiers, and we are prepared to do that. We will refrain from voting on this particular motion. But we wish to have it understood that we will be wholly content with whatever decision the provincial premiers may come to among themselves.

May I add this further word. We have put forward certain proposals. There is no doubt about what our proposals are. We have gone to great pains, both in the private meetings of the co-ordinating committee and in these open meetings of the conference to explain those proposals fully and clearly. May I point out that before presenting these proposals we as a government had to consider the position of what would be best for all Canada. These proposals were not arrived at by the Minister of Finance himself. They were not arrived at only at the instance of the Minister of Justice. They were not arrived at the instance of any one member of the government. Rather they were the result of very careful consideration and study to all members of the government, representing all the provinces of Canada. And we have agreed upon our proposals.

The difficulty, one which it seems to me is apparent, is that while we are agreed upon our proposals, the provinces are very far from being agreed upon any proposals.

From the point of view of the dominion we would welcome more than anything else the nine provinces meeting by themselves and discussing how far they can agree upon proposals which they might wish to present to the dominion government for consideration, vis-a-vis the proposals we have made.

We would welcome their doing that; and may I say we will consider any proposal from the provinces as a united group with the same care and consideration and regard for the well-being of all, that we have up to the present time given to the proposals we ourselves have made.

Mr. ILSLEY: A hasty computation of the cost of the Ontario proposal to the dominion would seem to indicate that it would cost the dominion government in the neighbourhood of \$100 million more per year, as a minimum, applied to all the provinces.

Mr. MACDONALD: I rise to support the motion made this morning by Mr. Hart and seconded by the premier of Prince Edward Island to the effect that we should retire to sessions in camera.

Before speaking to the motion however—and I shall be only a moment—I wish to say a word about the suggestion just made by the premier of Quebec to the effect that the proposals of the Dominion government are irrevocable.

If I understand correctly the presentation made yesterday by the Minister of Finance, and the presentation this morning by the Minister of Justice, the proposals are irrevocable only in the sense of the total amount of money involved. My understanding is that the details are not irrevocable, as we thought at first.

If I understand correctly, if we can arrive at some arrangement with the dominion with regard to their retirement from the gasoline tax field, without any impairment of their total revenue, then such arrangement will be satisfactory to the Dominion. So in that sense I think the proposals are not irrevocable.

Mr. ILSLEY: They are only irrevocable in the respect in which I stated they would be, in the statement I made yesterday.

Mr. MACDONALD: As I understand it, you have to get so much money. So long as you get that money, the details do not matter so much. It seems to me that we have settled about 90 per cent of the problem. We are agreed, I think, with one voice, to yield the field of income tax and corporation tax to the Dominion, subject of course to certain compensations.

There were a few other fields which are still in doubt, but they form not more than about ten per cent of the total tax fields. Surely if we have reached agreement to the extent of 90 per cent we should be able to get over the other ten per cent in some way.

I suggest that we should support Mr. Hart's motion for the reason that we will get along faster. When we are in public session, with everything we

say being recorded by a *Hansard* reporter, and by our friends in the press gallery, it is obvious that if one man makes a speech which another man thinks calls for a reply, that reply will be made. With the result that we will have an unending chain of speeches and replies which would keep us here for the whole of the summer.

In private session we have less of that prolixity in speeches and, I believe, we can proceed more informally, ask each other questions, call in our advisers and get along much more rapidly.

I would suggest, therefore, that we go into private session, but that perhaps the report to the press might be fuller than we have been in the habit of making them, when handing out reports from other private sessions. The secretary of the conference could perhaps prepare for our approval at the end of each session a more complete and comprehensive report, so that the public would know in a more complete fashion than in the past what has been happening.

I think we would do well to go into private session.

Mr. DREW: I do not wish to speak too often, but the fact is that since I was the one who first raised the question about these open sessions, and since the premier of Nova Scotia has raised a point which I think goes to the question of whether we should contemplate discontinuing public sessions, I perhaps might be permitted to say something further. I believe he put his finger on the essential consideration, and that is in the determination of principles.

When we have established principles, and are merely working out details, then I think we can very well sit informally, and work out computations and arithmetical details of that kind which we may require to settle. But I would point out that there are certain very simple and clear principles still in issue which have not yet been decided upon.

I wish to make it clear that the reason that I did not give the figure of X until this afternoon was not because we were withholding X. I had explained it each day. X could only be computed when we knew the fields that the Dominion government was prepared to vacate. Since we have not heard that, we simply gave that figure on the basis of our exact proposals; you have given a figure on the basis of your proposals.

I would point out that our computation, as a matter of fact, is not as high as yours. But, whatever the computation is, let me point out that so far as Ontario is concerned, we are not simply coming here to be told that "This is what the Dominion is prepared to hand out. You figure out how you will fit into it."

If we are going to give up major taxes, then we are going to do it on a basis which makes it possible for us to carry out our obligations. The figure which I have given is a figure which makes that possible.

I would just add this, that I believe that we should know, before we go into a closed session, or even consider doing so, whether the Dominion is prepared to vacate those fields.

Mr. MACDONALD: Is it irrevocable on the part of Ontario that it must put the Dominion out of the succession duties field? I thought Ontario had determined to remain in the field itself?

Mr. DREW: I have made that clear, all along—that nothing we put forward is "Take it or leave it".

Mr. GARSON: Your point is that \$12 is the figure, on the basis of your proposals?

Mr. DREW: Yes.

Mr. GARSON: To the extent that they are varied, there will be a difference.

Mr. HART: The motion that was submitted by myself, and by the premier of Prince Edward Island, was submitted because we thought in a private committee, after the discussion that had taken place this week, we would possibly come to closer grips with a number of the subjects which have not yet been settled. But I would not like to see that motion pressed, in view of the statements from the premiers of Ontario and Quebec.

I still think, sir, that we would make much greater progress in private committee; but if they are not ready yet to move into co-ordinating committee, then I suggest that the motion remain on the table, until such time as it is considered by this conference that it is a proper time to go into co-ordinating committee, for further discussions.

Mr. GARSON: Mr. Chairman, the statement which Premier Drew has just completed is, I think, perhaps one of the most important in the session. It offers a great deal of hope.

We now know the arithmetical basis upon which adjustments can be made as between the Dominion proposals on the one hand and the Ontario proposals on the other. Premier Drew has been good enough to make it clear that his proposals are not put forward in any "take it or leave it" manner. They are open to adjustment, and the basis of \$12 per capita is on matters as they now stand.

I do not know how the other provinces feel about it but, speaking for ourselves, although we are very much interested in the province, in our part of the world we have to be concerned with the dollars and cents angle in a matter of this kind. And we would welcome, rather than proceeding immediately, in the present session, without having a careful analysis of the Ontario proposal on the basis of \$12 per capita, which we heard a minute ago—we would like an opportunity to give it such analysis as we think we should give it, in order that we may deal with it intelligently.

For that reason I would like, if it meets with the concurrence of members of the conference, to move that we adjourn until tomorrow morning, to have an open session, according to Colonel Drew's suggestion.

Mr. MACKENZIE KING: The motion to adjourn is in order at any time. I suppose it is my duty to put the motion at once.

Mr. DUPLESSIS: Mr. Chairman—

Mr. MACKENZIE KING: It would not be debatable, I believe, according to the rules.

Mr. DUPLESSIS: It is debatable, according to the rules of our house.

Mr. MACKENZIE KING: All right.

Mr. DUPLESSIS: Yes, certainly. According to the rules of the Legislature of Quebec—and I represent Quebec—where we have free speech. I do not think that when a motion is presented by a premier of a province, a premier of another province, at a Canadian inter-governmental conference, could or should be denied the right to speak.

Mr. MACKENZIE KING: Let us understand clearly, Mr. Duplessis. You have the complete right of way.

Mr. DUPLESSIS: But I do not wish this to be considered as a favour; it is a right I am exercising.

Mr. MACKENZIE KING: Very well, go ahead.

Mr. DUPLESSIS: As I said before, each one of us is very busy. Work is piling up. I have been here eight days, and we did not have a single night sitting. We have been starting at 3.30 in the afternoons. I am going to stay in Ottawa and attend the sitting to-morrow morning, in the hope that during the night—night brings counsel—the sinner will repent and adopt a fair and co-operative attitude.

Mr. DOUGLAS: Mr. Chairman, I do not know that there is much use staying until we know exactly upon what basis we are going to proceed. I think an adjournment would be advisable, if we had some basis upon which we can begin to measure the exact meaning, in terms of dollars and cents, that the Ontario proposals entail.

But there are a number of points which we feel would have to be cleared up before we could estimate just what those proposals mean. Last night I suggested that there were probably three alternatives before us. One of those was that we simply disband, without any agreement, which none of us would desire to do; or that the federal government would simply indicate that they were not prepared to give and could not make any alteration in their proposals, and that they were prepared to sign an agreement with any province which would sign an agreement with them, or as the third alternative, that we go into co-ordinating committee, provided the federal government and those governments which still do not feel that they can accept the present proposals were each prepared to yield on certain points, and that there was some value in continuing the discussions.

It has been suggested that we should not go into the co-ordinating committee. Let me say that so far as I am concerned I never have been keen about those closed meetings. I was one who objected most strenuously to some of the proposals of the federal government, particularly, and of other governments, not being made public while we were in the co-ordinating committee. And so I say I have no objection to open sessions, at all.

But if we are going to continue these discussions, then surely we should begin to get down to cases. Seven of the provinces have now indicated that they are prepared to vacate three fields of taxation for which the federal government are asking. It is true that they have made some minor modifications. For instance, Nova Scotia has asked that certain tax fields be given to the province exclusively; and other provinces have made minor modifications. But, in the main, seven have agreed to vacate these two fields. The province of Ontario has indicated that it is willing to vacate two main fields of taxation. And I want to say just in passing, that those who are gloomy about this conference should remember that Ontario has come a very long way from last January, when they were asking that the provinces should collect in these fields, or levy in these fields, themselves, and should retain the right of collection of corporation and income taxation, in conjunction with the federal government—the federal government acting as agents for the provinces.

Now that Ontario has indicated its willingness to do that, they have given a new basis upon which they are prepared to make their claim—even if we did not have that until the last minute or so.

Mr. DREW: No, I must correct that. I made that perfectly clear at the January conference.

Mr. DOUGLAS: Perhaps I did not speak plainly. I said the basis upon which you were prepared to surrender these two features was not given to this conference until Monday. That is, I agree that Mr. Drew said last January that they were prepared to vacate—and I am not speaking of proposals given in January, but rather the conference in January—he indicated they would be willing to vacate these two fields. But the quid pro quo was not outlined in January, nor was it outlined at the meetings last week.

The return which the province of Ontario would ask was not given in its present form until Monday, and the dollar value was not given until to-day.

Most of us will want some time to consider the federal government's proposals, and we will want some time to work out what that means in terms of the various provincial governments.

The ninth province, Quebec, has not indicated yet what it is going to ask for in return for vacating these two fields. I listened carefully to Mr. Duplessis this morning when he stated the number of safeguards which Quebec would require—and with those I have no quarrel. I doubt if anyone would quarrel with some of the safeguards he asked for to preserve the rights of the province. But when it came to what the rental would entail he asked that there should be a fair price. I find it difficult to know just what is meant by a “fair price”.

I do not think we can continue these deliberations with any hope of success unless we are all prepared to put our cards on the table, face up. Premier Duplessis has just been criticizing the fact that we have been here a week, and that now we are talking about adjournment until to-morrow morning. But he has not yet indicated whether or not even the Ontario proposal is acceptable to him, and whether or not, if this conference were to accept the dollar value of X in the Ontario formula, the province of Quebec would be prepared to accept it.

It seems to me there is not much value in simply meeting here, arguing back and forth, unless we have certain fixed points from which to start. When we know what the Ontario offer means, in dollars and cents—and that can be quickly worked out, now that we have the arithmetical value of X—and if we can find out from Quebec whether or not they are prepared to accept the federal subsidy of \$15 per capita, or with certain modifications which they might suggest, or whether or not they would be prepared to accept the Ontario formula—having those facts we could then begin to discuss the matter with some hope of arriving at a conclusion. But we cannot work it out if we simply are told that some province does not like the present agreement, that it will destroy confederation, and that they want a fair rental. It seems to me that that ought to be cleared up.

Also, I do not see much value in our beginning to work out the full implications of the Ontario proposals until we know something about whether or not, on the one hand, the Ontario government or the Ontario representatives will insist on the federal government's getting out of the succession duties field; whether they feel that the tax fields, the minor tax fields, which they have asked should be turned over to the provinces, whether that is the *sine qua non*. And we cannot proceed until we know whether the federal government is irrevocable in its decision that it must stay in the succession duties field, and in the minor taxation field.

Unless that is worked out, we cannot proceed. I can go back to my room now and attempt to work out what the Ontario proposal amounts to in terms of X. But I have to know who will collect succession duties, whether it will be exclusively a federal field, or exclusively provincial, or a joint field. I would like to know whether we will leave out gasoline taxes, or whether the federal government will stay in the field and the provincial governments will be out, exclusively.

No one can work out this formula until these basic matters are cleared up. It seems to me that unless we can get a good deal more information, even an adjournment is not going to solve our problems; and we will come back to-morrow morning at 10.30, working out what the Ontario proposals mean in terms of their offer. But if the federal government turns around and says, “We are not prepared to get out of the succession duties field,” we will have to change the entire computation, because the value of X will be altered.

So it seems to me that there are a number of points, points which probably may have been threshed out better in committee, but which I am prepared to see threshed out in open session. However, I do think we are wasting our time, unless we can get these points determined, so that details can be worked out.

And I will say also that I for one had pretty well taken for granted, until Monday, that most of the provinces were agreed that the federal government offer of \$15 per capita was to be the rental for the taxation fields which they were asking. It is only in the last day or two that contrary proposals have been made. The fact that we spent so much time arguing about the minor tax fields which some of the provinces were asking for led most of us to believe that the \$15 per capita subsidy offered by the federal government was pretty well accepted, if the other minor matters could be threshed out. That is why I made the appeal which I did make to the federal government, asking if they would not seriously consider surrendering the minor tax fields, because I took it for granted that most of the provinces were prepared to accept \$15 per head as a sufficient rental for the tax fields they were being asked to give up.

I am in favour of Mr. Garson's suggestion that we adjourn while we work out the full implication of the Ontario government formula. But I do think that before we adjourn we might have some clarification on two points, first as to the attitude of Ontario with reference to these tax fields, and also the attitude of the federal government with reference to these taxes. I say that because if both are irrevocable, then two or three hours working out the value of X will be wasted.

Mr. MACDONALD: The premier of Ontario has said that he has not shut the door.

Mr. DOUGLAS: What about the federal government.

Mr. ILSLEY: Mr. Chairman and gentlemen, during the course of the discussions in the co-ordinating committee only the dominion government proposals were discussed. They were discussed at great length. I remember that I indicated if any one wishes to bring forward other proposals that I would like to discuss those other proposals.

Something like concrete proposals have now been brought forward and I suggest they are entitled to and should be considered. They should not be dismissed because they are not of the same pattern as the federal government proposals.

I indicated yesterday that we would regard as essential to an agreement the transfer of the corporation tax and the income tax fields to the dominion in return for the agreement; and that the dominion would regard also as essential the right to remain in the field of succession duties. I made that clear.

To that extent our position differs from the position taken this afternoon by the premier of Ontario, although I do not understand that his position is irrevocable in regard to the suggestion that we entirely vacate the succession duties field.

Then, with regard to the minor tax fields, I covered them very carefully, as I thought yesterday. One of those taxes was an old tax although a small one, the field of which we did not think we should be asked to vacate. I refer to the security transfer tax. It was placed on in 1915 and 1920.

Then, another tax, namely the electricity tax, was in fact a sales tax, and the subject was discussed at some length.

Then, with regard to the remaining taxes, namely the taxes on gasoline, amusements and pari-mutuel betting machines, we said we were quite prepared to vacate those fields, for a consideration which would be satisfactory to all the provinces, and which would give us the financial equivalent of those taxes. I invited the provinces to try to agree upon a consideration. We tried to think of a sum. I was proceeding entirely upon the basis of the dominion government proposals.

The Ontario proposals are the only alternative set of proposals; before them everything has gone on the basis of the dominion proposals, with modifications of one kind or another. Before I were to make any statement which would be regarded as completely final on any aspect of the matter, it seems to me I ought to look at those proposals.

I still say, however, that this illustrates the difficulty of speaking, when what is being said is being taken down, as against speaking in committee when they are not taken down, because these words are important. Of course they will be used against me, quite probably if I go wrong.

We regard it as essential, the whole basis of the agreement. The premiers have indicated that they are willing, for adequate compensation, and upon satisfactory terms, to agree to vacate those two fields, namely the corporation tax field and the income tax field for the duration of the agreement. We also regard it as essential that we have the right to remain in the succession duty field. And with regard to the three strings I have mentioned, we are willing to get out of those fields if we can get adequate compensation upon which the provinces can agree.

I am afraid, from a cursory examination of the Ontario proposal, that if we accept it in its entirety it would be entirely beyond our capacity, because of the tremendous cost to the dominion over our own proposals. That is apparent. That is what it would look like, just to look at it quickly.

I think also it will be found that if it is applied generally among the provinces—and the basis of it is that of general application—it will be found that it will be so uneven in its incidence for the various provinces that there will be more elements of inequality in it than there are in the dominion government proposals. However, I am not prepared to make a final statement without first examining the proposal.

Mr. DREW: Since several suggestions have been made that the Ontario proposals are new, I want to point out emphatically that they are not. We made our proposals in the most explicit form in our brief in January. At that time the personal income and corporation tax fields were the basis of our main concern; we opposed the exclusive use by the Dominion of income and corporation tax fields. And then the rest of our proposals were in regard to other direct tax fields.

Then, at the January conference we said we were prepared to rent those main tax fields—personal income and corporation taxes—for appropriate returns, leaving the rest of our proposals. Examination will show that our present rental proposals are exactly what we said in January, and the algebraic formula only is new. We put that forward recently.

But in any examination of our proposals over-night, may I suggest to the dominion government that they consider the agreement which goes into effect in Australia on July 1, under which the Australian commonwealth government is paying to the various state governments a very much larger percentage of its income tax. They are paying 18·50 per cent of all collections in the income tax field to the state governments by way of compensation for their rights in the income tax field. And in a country with a population of only 7,500,000, as compared with our 12,000,000, they are paying to the states for similar rights some £40 million, which we usually regard as close to \$200 million.

But I would point out that a country with only about two-thirds of the population of Canada is making a contribution of that size to the states for a similar tax field.

Mr. CLAXTON: In connection with what has just now been said by Mr. Drew, I should imagine many representatives from the provinces are familiar with the settlement made between the Commonwealth government and the states for its

purchase of tax fields there. I believe Mr. Drew will acknowledge the necessity for comparing the whole situation in Australia with the whole situation in Canada.

There the basis of taxation and the distribution of taxation is very much the same, constitutionally, as it is in Canada. That is, the federal government has full power of taxation. The provinces or, in their case, the states, are in some respects limited. But the practice has been in Australia for the states to raise a very large percentage of their revenue from income tax. It is a main source of raising revenue in the states of Australia.

On the other hand it is very odd to our ears to hear that the commonwealth government in Australia raises part of its revenue by taxes upon real estate, or something which would be the equivalent to a tax on real estate. We have nothing of that kind here, nor have we any intention of having it here. I mention this just to show that the situations in the two countries should, as I think all would wish, be considered in their entirety. If that is done it will be found, I am sure, that the proposals made by the federal government here are reasonable, fair and comprehensive, having regard to the relative circumstances in Australia and Canada.

One further fact in that connection, and that is the meaning of the offer of the Commonwealth when put into the current rate of exchange. The Canadian equivalent of the Australian figure of £40 million would not be \$200,000,000 as Mr. Drew said but about \$144 million.

The calculations which Mr. Ilsley put on record yesterday as they appear at page 122 of the report show the cost to the Dominion treasury of the various points put forward by Ontario at that time, as part of the Ontario proposals, as conditions for their acceptance. These figures should be recalled in connection with the figure of \$12 per capita which was mentioned by Mr. Drew to-day and mentioned, it may be said, for the first time.

At page 122 it will be seen that the value of the succession duty tax is fixed by him at \$50 million and gasoline at \$30 million.

Mr. DREW: By Mr. Ilsley.

Mr. CLAXTON: Yes, in his statement yesterday morning. Then the amusement tax is placed at \$14 million, the pari-mutuel tax at \$2 million, the security transfer tax at \$1 million, electricity sales tax at \$5 million, which gives a total figure for this tax field of \$102 million less revenue for the Dominion. Then he fixes foreign exchange at \$7 million. While the minimum cost for old age pensions is \$17 million it might well amount to \$115 million as it might be impossible for the Dominion to pay old age pensions on a means test basis. Then, statutory subsidies are placed at \$17 million. Assuming the minimum amount of \$17 million for old age pensions, all these total \$143 million. And that does not give any estimate for the dominion government's assuming the full cost of relief for unemployed employables, which of course is difficult to estimate. The dominion government proposals were that we could assume responsibility for unemployed employables at 85 per cent of the unemployment insurance benefits. Presumably the Ontario proposal would mean something considerable, in addition, which it would be difficult to estimate.

The \$12 per capita figure mentioned by Mr. Drew, multiplied by the population for 1941, would give a figure of approximately \$138 million; making a total cost of his plan on that basis of \$143 plus \$138 million or in all \$281 million, as opposed to the dominion proposal which for the guaranteed minimum would cost \$181 million. And in this rough way we arrive at a difference of \$100 million, which was the figure mentioned a short time ago by Mr. Ilsley. That would be the additional cost to the Dominion of the Ontario proposal. Instead of its, therefore, costing \$181 million, at the basic guaranteed minimum, it would cost \$281 million, according to these figures.

I think everyone would like to know about it, if we have made a mistake in our calculations, because they have been done quickly. The difference is considerable, and since Colonel Drew has said that this proposal is not a closed one, it looks as if here we come down to a matter of dollars and cents. As I see it, the difference between the two proposals is very considerable.

Mr. DREW: Since one new point has been raised, I believe I should refer to it now. First of all I recognize that this may be covered by the statement that the figures have been worked out quickly, but I can assure Mr. Claxton that his figures are not correct, as he will find out when he works it out after. However there is one point I should like to make clear. Mr. Claxton said that in regard to the Australian position, we had to have regard for the difference. We must have regard for the difference, and we also must have regard for the fact that in Australia the residual power is in the state, and that they have very much greater powers outside this agreement than we would have in Canada.

Mr. MACDONALD: With regard to those fields of taxation such as gasoline, amusements, and so on, is it essential, in the dominion's view, that the same sort of agreement be made with all the provinces, in that regard; or, may one kind of agreement be made with one province and another kind of agreement with another province?

Mr. ILSLEY: Well, Mr. Chairman, when the federal tax comes off, it must come off everywhere.

Mr. MACDONALD: I agree. You would have to take your three cents off gasoline; but would you take one thing in Nova Scotia and another thing in Manitoba? You made several suggestions the other day of alternatives or substitutions for this, something about old age pensions, to bear a share of old age pensions; or that you might do this or you might do that. Would all the provinces be dealt with in the same way, or would you be prepared to take fish in Nova Scotia and meat in Saskatchewan?

Mr. ILSLEY: I would have to give consideration to that. I assume we would have to apply one rule right across the country.

Mr. MACDONALD: Well, that is all.

Mr. MACKENZIE KING: I do not wish to be precipitate in the matter of adjournment, but, if it is agreeable, I shall put the motion that the conference now adjourns until to-morrow morning at half past ten. Carried!

The Conference adjourned at 5 p.m., to meet again on Friday, May 3, at 10.30 a.m.

PLENARY SESSION — No. 9



DOMINION-PROVINCIAL CONFERENCE

Friday, May 3, 1946

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

DOMINION-PROVINCIAL CONFERENCE

SENATE CHAMBER, OTTAWA, MAY 3, 1946

REPORT OF PROCEEDINGS

The Dominion-Provincial Conference met in the Senate Chamber, at 10.30 a.m., with the Prime Minister, the Right Hon. W. L. Mackenzie King, presiding.

Mr. MACKENZIE KING: Mr. Ilsley.

Right Hon J. L. ILSLEY: I have been asked to make an analysis of the Ontario proposals in the light of the statement made yesterday afternoon, and I will now give such an analysis as we have been able to make of those proposals.

The additional cost to the Dominion of the Ontario tax transfer and subsidy proposals as compared with the Dominion proposals is a matter I should like to deal with.

First with regard to the payments. The Ontario proposals involve an additional amount of \$17,000,000 in Dominion statutory subsidies as compared with our proposals, and they involve a loss of tax revenue to the Dominion through tax transfers of \$102,000,000 as compared with our proposals. The \$102,000,000 is made up as follows:—

Succession duties, total	\$ 50,000,000
Amusement tax	14,000,000
Gasoline tax	30,000,000
Stock transfer tax	1,000,000
Pari-mutuel betting tax	2,000,000
Electricity	5,000,000
	<hr/>
	\$102,000,000

That makes the figure of \$102,000,000 which I mentioned.

The payments under the Ontario formula of \$12 per capita in the year 1947, on the basis of the best estimate that can be made, will be \$188,000,000. The \$188,000,000 is made up in this way:

The \$12 is multiplied by a fraction, and this is the fraction: \$11,359,000,000 is in the numerator, being the estimated gross national product for the year immediately preceding 1947; that is, the year 1946 divided by 12,252,000 the estimated population that year; the denominator is \$8,335,000,000, being the gross national product for the year 1941 divided by 11,490,000 the population that year. That product is then multiplied by the estimated population for the year 1947, which is 12,252,000. The resulting figure for the year 1947 is \$188,000,000. So the total payments to the province, including the value of tax transfers, amounts to \$307,000,000, or an amount per capita of \$25.

The corresponding figure under the Dominion proposals for the year 1947 is estimated to be \$198,000,000, which makes an increased cost to the Dominion of the Ontario tax transfer and subsidy proposals of \$109,000,000.

In addition, the proposals of the province of Ontario involve the assumption of certain liabilities or responsibilities by the Dominion which the Dominion proposals do not involve. One of these is the payment of the exchange premium

on external obligations of provinces and municipalities, which is estimated to be \$7,000,000; the payment of the full cost of pensions for the blind, which is an additional \$1,000,000 over the Dominion proposals; and the payment of the full cost of old age pensions. I covered the cost of that in the statement that I made the day before yesterday. If the age is lowered to 65 and the pension amounts to \$30 per month and there is a means test, the additional cost to the Dominion would be from \$17,000,000 to \$20,000,000. If the age is lowered to 65 and there is no means test the additional cost to the Dominion will be \$115,000,000. It is impossible to estimate the actual cost there but it would be a minimum of \$17,000,000 and perhaps very much more than that.

Then there is the further additional obligation which the Ontario proposals place on the Dominion, and that is to pay the full cost of relief for unemployed employables, not merely the 85 per cent of the unemployment insurance benefits which is involved in the Dominion proposals; 85 per cent of the unemployment insurance benefits might be the full cost in some localities or in some provinces. Some of the provinces have urged that there may be special situations in which supplementary assistance may be needed. Our proposals were that that supplementary assistance be a responsibility of the provinces and the municipalities. Indeed, it would be administratively impracticable entirely and most undesirable from every point of view for the Dominion government to be assuming full responsibility therefor because the Dominion government has not close connection with the local situations and would have to exercise a degree of control which would be undesirable. That is a commitment of an uncertain amount and no estimate can be placed upon it.

However, if we add to the \$109,000,000 which I mentioned to begin with as the increased cost to the Dominion of the Ontario tax transfer and subsidy proposals, the factors which are certain, that is the minima—I say certain but it is rather an estimate for the exchange premium, and \$7,000,000 is the best estimate we can make, then we have \$7,000,000 for exchange premium, \$1,000,000 for pensions for the blind, and a minimum of \$17,000,000 for old age pensions. Those three amount to \$25,000,000. That gives us a minimum increased cost of \$134,000,000 of the Ontario proposals over and above the cost of the Dominion proposals.

I have not dealt with minima. I am not in a position to give an estimate on the basis of minima. I am taking the probable effect for the year which is nearest to us, the year 1947.

This would mean that if the proposed tax transfers and subsidies suggested by the province of Ontario were accepted, they would total something like \$50,000,000 more than all the provincial revenues, including the Dominion subsidies, before the war. That of course is entirely out of the question for the Dominion.

The Dominion offer, which has been the basis of the discussions up to date in this Conference was considered a fair offer. It amounted to 59 per cent over the present wartime tax agreement payments, including statutory subsidies and succession duties. The total of the wartime tax agreement payments, including statutory subsidies and succession duties, was \$124,801,000. The proposed Dominion payment for 1947 as presently estimated is \$198,200,000. We felt that unless the province had in mind putting on a very high income tax and corporation tax if the fields were returned to them, they could not reasonably expect to recover nearly as much as that from the occupation of these fields.

When I speak of payments to the provinces, we must not lose sight of the other commitments in addition which the Dominion government makes for the benefit of our population generally, such as the social service obligations, public investment obligations and unemployment assistance obligations. The unemployment assistance obligation is very largely dependent on situations as they

develop. For these reasons the Dominion government must adhere to its position that the dimensions of its proposals are as stated by the Prime Minister on Monday morning and by me the day before yesterday.

Something has been said about Australia. I am not in a position to argue the situation in Australia fully, because conditions vary considerably between different countries. The Australian wartime tax agreement payments were based upon receipts by the States in the years 1939-1940 and 1940-41, and may for that reason presume to have been—although I could not be positive without knowing all the facts—on at least as low a basis and perhaps a lower basis than the wartime tax agreement payments of the Dominion of Canada. Yet the increase in the payments provided for in the new agreement between the Commonwealth government and the States is only 17 per cent, as compared with 59 per cent as suggested in the Dominion proposals.

Mr. DREW: Only 17 per cent of what?

Mr. ILSLEY: Only 17 per cent of the payments under the wartime tax agreement in Australia. The Australian present payments are £34,255,000, that is under the wartime tax agreement in Australia. The new agreed payments are £40,000,000; that is an increase of £5,745,000, which is just under 17 per cent increase. The £40,000,000 is, as Mr. Claxton pointed out yesterday, not the equivalent of \$200,000,000 because the quoted rate of the Australian pound is \$3.55, which makes the total Australian payments the equivalent of \$142,000,000. Now that is greater than the proposed per capita payments here, but the situation in Australia is different, in many respects that I do not know about, and in one respect that everybody does know about it who has looked into it at all, in that the municipalities carry on very much greater services as compared with our municipalities, and the States very much greater services than the provinces do; so the conditions are not comparable, and I do not think any lesson can be learned from the position of Australia unless we have all the facts before us.

Mr. MACDONALD: They are still making grants under the Commonwealth Grants Commission in Australia.

Mr. ILSLEY: In addition to this.

Mr. MACDONALD: For the year 1944-45 South Australia received £950,000 from the Tax Commission, Western Australia, £404,000, and Tasmania, £677,000, from that Commission.

Mr. ILSLEY: Now, some of the features of the Ontario proposals are these, that they propose very much larger subsidies to the provinces than the Dominion proposals do, and that despite the fact that the province of Ontario takes very strong exception to the subsidy principle, the Ontario government is asking the Dominion to provide it with foreign exchange well below the price at which foreign exchange is provided to all other Canadians, and at a loss to the Dominion government estimated to be about \$7,000,000. And the Ontario proposals ask the Dominion government to relieve the provinces of all their constitutional responsibilities in regard to old age pensions and the unemployed, and in that sense are departing from the principle of provincial responsibility which has been pretty well established in the past.

The Premier of Ontario has frequently said that Ontario is not haggling over money and is much more interested in the principle than the money. But the offer made yesterday involves a tremendous payment in money, which I have estimated would involve a cost to the Dominion of \$134,000,000 more than our proposals, as a minimum, and which might, depending upon what system of old age pensions the provinces think should be instituted, and depending upon what the developments are with reference to unemployment assistance, run up to perhaps double that or more.

Mr. GARSON: Double the \$134,000,000.

Mr. ILSLEY: Yes. The main part of that would be payments under a no-means test to those over 65, and there would be other sums.

Most of the other provinces that are, I should think, more in need of subsidies, have indicated that the Dominion offer is reasonably satisfactory. The Premier of Ontario said that the province of Ontario was being asked to give up tax fields, by which I understood him to mean the income and corporation tax fields, which were worth well in excess of \$100,000,000. Now, the most that the province of Ontario ever obtained from these tax fields was \$29,000,000. It is true that profits and incomes have increased, but not nearly enough to explain that vast difference. It may be that a tax of ten per cent on corporations is included, but this would not give the province anything like the \$100,000,000. In 1944, at the peak of war incomes, the total profits on which the Dominion collected taxes in Ontario were \$570,000,000, slightly less than one-half the total in the Dominion, but ten per cent of this is only \$57,000,000, and this leaves well over \$43,000,000 to be found from personal incomes. In the fiscal year 1941 the amount obtained from the personal income tax in the province of Ontario was about \$7,000,000. From present incomes, of course, this would be higher; perhaps it might be double that amount, bearing in mind the other provisions of the Ontario income tax. But if \$45,000,000 were to be obtained from personal income tax in the province of Ontario it would be necessary to more than treble the pre-war rates of tax. I do not think it is possible nor desirable to do so, and I do not think it is contemplated to make an increase like that in tax rates. Yet changes like that would have to be made to give anywhere near the \$100,000,000 which the Premier of Ontario has intimated is the value of the corporation and the income tax fields.

If we were to seriously consider meeting the Ontario proposals it would mean, of course, that we would have to give up any idea of a reduction of personal income taxes in the Dominion of Canada. That would be entirely out of the question. And if we are to make the reductions of personal income tax and go some way to reducing the duplication in taxation of corporations and shareholders—the double feature of taxation there—we have to stay within the financial limits of the Dominion proposals which I mentioned the other day.

The Premier of Nova Scotia asked me yesterday afternoon as to whether, if financial equivalents were suggested for the tax fields which we offered to vacate, they would have to be the same for every province. My answer is no, it need not be the same for every province, if the provinces can agree on the differentials, provided the Dominion is not left worse off financially; and provided the arrangement for a system of differentials between the provinces is generally acceptable to the provinces it will be acceptable to the Dominion. His other point, as to whether this will be optional with any province, appears to me, if I understand that question, to involve an answer to this question, as to whether the Dominion would vacate those fields with respect to certain provinces and stay in the fields in respect of other provinces; that is, have a Dominion tax which applied in some provinces but not in others. That, of course, would not be practicable and it would not be agreeable.

Now may I say just a word about a statement which has been made several times by the Premier of Ontario, stressing the fact that in 1941, in the budget speech delivered in April of that year, I said that the agreement then being made was of a purely interim character and that we were not asking the provinces to give up succession duties. The language I used has been quoted, and I would not be dealing with this at all except that the Premier of Ontario said that a question of good faith is here involved, and there seemed to be some suggestion that, having used that language in 1941, that we were asking the provinces to enter into an interim agreement and were not asking them to give up succession

duties, I was in a way giving my word or giving the word of the federal government that we would never propose an extension of these agreements, either on the same terms, or on other terms.

The language that I used was precisely true, precisely accurate. The proposal we were making to the provinces was made to them after the Conference had gone to pieces and broken down; and it was exactly what I said it was, a proposal for the duration of the war, and we did not in that proposal ask for succession duties, partly at least because that would have thrown an additional difficulty in the way of getting an agreement. It is not because we did not consider that the collection of succession duties by the Dominion was the proper system at that time, but because we felt it is desirable to get an agreement, and that we would more likely get an agreement if we confined our effort to income corporation taxes. I made no statement whatever on the principle of whether succession duties should be collected solely by the Dominion or not. I said nothing one way or the other about that.

When persons enter into an agreement for an interim period and say it is an agreement for an interim period, for the war only, there surely is no implied obligation on the parties to that agreement to refrain from meeting one another when that agreement comes to an end and discussing between themselves whether it is desirable for that agreement to be continued. That should be clearly understood because we are proposing entering a three-year agreement now; and certainly it must be open to either party to that agreement, before that agreement comes to an end or at the time it comes to an end, to make any suggestion they wish to the other party as to the making of a new agreement on the same lines or different lines. The fact that we say this is a three year agreement must not be taken as pledging the word of the Dominion government that they will not enter into a further agreement at the end of that time, if the interests of the country seem to require it. That is different altogether from repudiating an agreement. That is different altogether from the position in which the Dominion will come along and say, "We are not going to step out of these fields." The Dominion is bound by the terms of the agreement and they have to vacate these fields at the end of three years just as they have to vacate the fields at the end of the war-time tax agreement. I would not stress this point, because it seems obvious to me, if it had not been brought forward so many times and references made to good faith. "The question of good faith is involved," said the Premier of Ontario. Therefore I feel I must mention it.

Mr. DREW: Do I understand from your statement that so far as the broad picture of finances is concerned, subject to internal adjustments, you stand rigidly within the structure of the proposals that you made on Monday?

Mr. ILSLEY: As far as the financial end is concerned.

Mr. DREW: You stand rigidly within the structure of the proposals.

Mr. ILSLEY: I do not know that I used the word "rigidly". I stand on them. I say that the Dominion government is not prepared to incur further financial costs other than as indicated by the Prime Minister and Mr. St. Laurent in his statement yesterday.

Mr. GARSON: I assume, Mr. Ilsley, that you will be willing to receive offers sympathetically from the provinces in connection with any of these tax fields so long as they would not have the effect of disturbing that total?

Mr. ILSLEY: Oh, yes.

Mr. DREW: Mr. Chairman, what this statement means this morning is that having sat here and discussed the possible alternatives for five days, we are told, with various explanations, that the Dominion government does stand rigidly

by the proposals made on Monday, subject to the qualification that they are prepared here for paring one way or the other in regard to such limited individual items as they indicated some willingness to consider.

At the outset let me remove any suggestions that there was common understanding that the Dominion proposals in regard to money were acceptable at any time to any province; nor have we been haggling about money, nor has there been any doubt from the very beginning as to what the exact position of the Ontario government was. We have made it abundantly clear from the beginning that we are not here as clamorous beggars asking for a hand-out. We are here as the representatives of the people of Ontario, and we are here as the Ontario representatives of one group of Canadians to establish for all Canadians as well as for the people of Ontario that reallocation of taxes which carries with it allocation of administrative and supervising responsibilities which will be in the best interests of all the people of Canada.

We have said from the very first open conference, through the meetings of the co-ordinating committee and since, that it does not cost the taxpayers of Canada one cent more whether the money they pay flows through the channels of the Dominion treasury or flows through several channels of the nine provincial treasuries, so long as it is for the same over-all services. We have pointed out on the contrary that the more the taxpayers' money is channelled through the provincial treasuries in these fields of local concern the more there is an automatic reduction of costs to the taxpayer by the very fact that the wholly unnecessary duplicating services which have been set up in Ottawa can be removed, and not only the tax collection in these fields but the administration and supervising to be carried on by skilled civil servants with years of training in fields for which they have actually been trained.

That, however, is one of the minor features before us for consideration. The very important consideration before us is this: Each province has heavy obligations of great concern to the people of Canada, of greater concern to the people of Canada in their daily lives than any of the tremendously important responsibilities of the Dominion government.

The municipalities, where government is closest to the people, and with due respect to all other governments, may I say for that very reason best and most intimate, are the legal children of the provincial governments. All these municipal councils have their legal being and their legal power under the laws exclusively in the hands of the provincial governments. The supervision of the affairs of these municipalities, and the essential assistance to them—and it is not only in the province of New Brunswick that substantial direct assistance is given to the municipalities—is a very real, continuing and important concern to these governments which give them legal existence.

Then we have the exclusive responsibility for education. And may I say on behalf of the people of Ontario that there is no field of government in which we will so rigidly assert our exclusive jurisdiction as in the field of education. We respect the great traditions of those sister provinces which have built up confederation with us. We respect the traditions of those provinces which, with a different historic background, have in one of the most generous demonstrations of a common faith in the same democratic course, gone side by side with us from the beginning of our national existence. We cherish our traditions; we cherish our right to give education in the way that we believe it should be given as much as does any other province. And in saying that we assert for every other province the right to preserve their traditions, their historic backgrounds, their historic rights which are much dearer to them than any exchange of money that could be arranged here.

We have the exclusive jurisdiction in the administration of justice which is the very bedrock of democracy. Our exclusive jurisdiction over that field and the assurance of the protection of the courts is something about which we

are more concerned than ever before, and we will assert our right to assure the protection of people under laws that go back for hundreds of years. The maintenance of those courts, the maintenance of that system of judicial administration, is in every province the exclusive responsibility of the provincial governments.

Ours is the responsibility for the development of the vast resources which made production possible in this country during the war. Nothing that the Dominion government did, nor has been called upon to do in the past in the way of technical development, laid the foundation for that huge production from the natural resources. That was the result of the development and supervision of these resources by the provincial governments throughout the years.

In the province of Ontario, and speaking only for the province of Ontario, our enormous industrial production was not made possible by contracts signed here in Ottawa. It is true they did put the green light on production. But the production flowed from the combination of human effort and skill under property and civil rights, within the exclusive jurisdiction of the provinces; flowed from the skill of brains trained in our province, as in other provinces; flowed from the human energy which was the birthright of our people and which was supported, in Ontario, by the productive capacity of our mighty electric resources, assisted by the friendly co-operation of the province of Quebec in the form of hundreds of millions of horsepower which we obtained from them by agreement.

Ninety per cent of all the war production of Ontario was the result of power supplied by the government of Ontario, or through contracts arranged by the government of Ontario, and all that was dependent in its initial stages, before it reached the railways—and even in one case when it reached a railway—upon the development of facilities in the province of Ontario through the expenditure over the years of hundreds of millions of dollars upon highways which constitute the arterial system of this great production.

In peacetime, unless we reach another agreement, with the province lies the sole responsibility for labour relations upon which depends not only the production but the good will and common understanding between employers and employees throughout our province, as in other provinces.

Except for certain national aspects, particularly affecting the external field, ours is the responsibility for the agricultural relations within the province and the agricultural production in Ontario, which I would remind some of those attending this conference has reached the highest point in many fields of production. That was largely the result of organization with the assistance of the government of Ontario through our own skilled and highly trained agricultural representatives maintained by the Ontario Department of Agriculture. We maintain also the supervision of the personal health services and all hospitalization, except military hospitalization. That is our responsibility, an increasing responsibility mounting yearly; and that we cannot escape.

I have only touched a part of the field that, until the compact of confederation is torn to pieces—and I too use the word compact—must be the responsibility of the provinces. Until the compact of confederation is torn to pieces, and please God it never will be, but until that is done, if these things are to be done at all they must be done by the provincial government. And to do these things, since long before confederation, the provincial governments have been building up skilled, highly trained and unselfish civil service organizations to carry out these great public responsibilities.

We do not come here as heads of puppet governments begging to be permitted to carry on our useless pomp. That is not the basis on which we have come here. We have come here as the business administrators of governments which deal with the most important human needs of this country. From

the day we met here the position of Ontario has been that we will make arrangements for the transfer of our taxing powers in the interests of national agreement, but will make arrangements for those transfers only upon a basis which provides us with the money which we require to carry out our obligations, and which will also retain for us our own administrative freedom, and which must be made up beyond any money that is provided by way of payment for these special tax fields under discussion.

That in broad terms is our position. The Dominion government expresses some surprise that we should place before this conference a formula that contemplates an annual budget of \$200 million. I would ask them to look at their own budget between the time mentioned and the present time to see what has happened in the intervening years. They say, "We have those enormous new burdens in this modern world, but we are surprised that you need to go substantially beyond what you were receiving in those dim and distant days beyond recall."

The Dominion government, through its spokesman this morning, expresses some surprise that we attach a value of more than \$100 million to those tax fields which they solemnly undertook to return to us when the war was over, without equivocation and as a promise, which was the only way they got the agreement in 1942. They express some surprise that we should attach a figure of \$100 million to that.

But it was the Dominion government which fixed that value. It was the Dominion government which fixed it because they placed that value on these taxes in dealing with the province of British Columbia, although they did not name British Columbia in doing so. By another formula we got for the first time in January they placed a value on these tax fields, and when we say we place a value of over \$100 million on these fields we are taking exactly the value the Dominion government placed upon these taxes for the province of British Columbia. We say, "That is all right; you have done that for the purpose of computation and we will take that as the basis."

I will admit that the premier of British Columbia said that figure is not yet high enough for them. That was the statement he made in the British Columbia legislature. But our figure is computed with the acceptance of the very value the Dominion government has itself placed on these taxes, and surely there cannot be different values placed on these taxes for the different provinces sitting around here, or Sir Wilfrid Laurier's warning would indeed become a reality—and I mention particularly the last of his warnings which I quoted.

You ask me why we should place a value of that figure when we only collected a little over \$29 million in the years before this agreement. Well, there are two reasons. We were able to impose that tax on a basis which provided only that amount in those years because we were imposing many other taxes which had not made it necessary for us to place as heavy an incidence upon these taxes as in some other provinces.

But another very important thing is that many new demands have been imposed upon us, and the heaviest of these are the demands created by the Dominion government, and by one particular department of the Dominion government.

We did not come here to be told, like hungry children: "Here is the pie; you can go outside and decide among yourselves how big the slices will be which will be acceptable to each of you, and then when, as hungry children, you have been able to determine the exact size of each segment of that fixed pie that will go to each of the provinces, come back and tell us, and we will cut it and hand it out to you on that basis."

No! We came here as the heads of responsible governments sitting around this council table to seek a system for the reallocation of taxes which would on the one hand facilitate the combined functioning of the federal system, with

increasing strength and vigour for the dominion government—and there is room for that—and, at the same time, give to the provinces, now that we are out of the war period, that measure of legislative and financial freedom which they were promised and which they must have if the federal system is to continue.

Now the dominion government has disclosed this morning, through its spokesman, that they have discovered certain very important home truths. When the spokesman for the dominion government said that they thought it would be impossible to take on the cost of full employment, although rightly or wrongly they have conveyed the opinion to the public, since last August, that they were ready to do so—the spokesman for the dominion government then went on to say that the dominion government hasn't close connection with local conditions. I repeat that, because those are the exact words: The dominion government hasn't close connection with local conditions.

That is what the government of Ontario, since the beginning, has been seeking to impress, and we welcome this enlightenment which has come to the dominion government because we want to make sure that those governments which have close connections with local conditions do have the power and the financial freedom and administrative responsibility to carry out those duties which are close to local conditions. We also want to be free to assist and guide and help those municipal governments which are closest of all to local conditions.

Mr. ILSLEY took exception to my remark that a question of good faith was involved here. We shall get nowhere if we do not speak with the most complete frankness. A question of good faith is much more involved now than it was before the spokesman for the dominion government spoke this morning. He said in effect: "We knew we could not get the agreements in 1942 if we did not make that promise." Go back through the *Hansard* record and you will see that was the effect of what he said.

Mr. ILSLEY: Not at all.

Mr. DREW: A conference had just broken down, and you will find those are almost his exact words: "We thought it was more likely that we could get agreement if we gave this undertaking."

Mr. ILSLEY: No; you left out succession duties.

Mr. DREW: If that is what you meant, I accept that statement. So you left out succession duties and said they were expressly excluded, and you left the impression that they were excluded from the agreement. Now you tell us this could not be taken to mean that when we came back again we could not expect to demand all these taxes back as the basis for a satisfactory agreement.

Mr. ILSLEY: It is not a demand at all; it is an offer.

Mr. HOWE: Ridiculous.

Mr. DREW: I have heard a lot of ridiculous things since I came here. I hear the word "ridiculous" from the minister to my left. I have not spoken about him before.

Mr. HOWE: Go ahead.

Mr. DREW: I will, and not in the spirit of annoyance which he has displayed.

When we came here in January before the coordinating committee you will remember that at that time one of the subjects we discussed which, we said, was causing the greatest possible difficulty to the provinces, was that of rash promises being made by your department in regard to hand-outs to municipalities, without any examination by those who understood municipal conditions or the real facts.

Mr. HOWE: Like George Drew.

Mr. DREW: Oh, we have heard that statement before. The dominion government has made it clear that the only condition upon which timing grants could be made was that such grants would be delayed indefinitely to finance a backlog of planned construction until the over-all demand, not the local—until the over-all demand, under a cyclical recession, to use your own words, came about. That was done. That was the undertaking your department made with respect to these grants to municipalities, although you knew that they were going to go right ahead with construction immediately. And if you want an example, let me mention the Toronto Transportation Commission in Toronto. That was an instance where this department, without consulting the Ontario government, promised a timing grant to that transportation system, which was to go ahead right away, although the figures showed that the organization was sufficiently financed to take care of every undertaking on its own.

Mr. HOWE: I never heard such a misstatement in my life. I am prepared to read the letters.

Mr. DREW: I am not going to answer that in kind; but I will tell you this, that in spite of your undertaking in January not to repeat that, instead of that, only two weeks ago I had a letter from another municipality which told me of two more promises you had made of grants for money. That was Peterborough, if you want to know.

Mr. HOWE: What was the promise there; I never heard of it.

Mr. DREW: I will send you the letter if you have never heard of it. But that simply indicates the danger of having departments set up without experience in handling these affairs.

What I have pointed out I have pointed out in no sense of rancour. It was not my charge which caused all this, I might point out. We have been imposed on for so long by some of your statements that you can make all you like. But I am speaking on behalf of the government of Ontario, and I am repeating statements that you can well recall—your reckless statements to the public.

What I said then, and what I repeat to-day, without any sense of rancour is this, that any arrangements that are made must be made in such a way that the direct relationship between municipal governments and provincial governments is not broken, and that arrangements are not made for great federal projects, in which there must be joint responsibility, without the departments of municipal affairs in the various provinces having the opportunity of considering those projects, as well.

Do not let anyone go out from here and say that we have opposed the principle of timing grants. We have said from last August, on—and in all those closed meetings, from which many strange reports emanated—we have said on every occasion that we believe in the principle of timing grants, and that we want the highly skilled and highly trained municipal departments in the provincial governments to be able to exercise that measure of supervision and control which they should exercise over timing grants that are arranged.

But that can only be done if the channel of contact with municipal governments is through the provincial governments and their departments.

I want to speak about the Australian grants, which were brought up by the Minister of Finance. He spoke about the fact that these grants were on a different basis. They are on a very different basis. And just so that we may keep the information complete and clear may I say that when Mr. Claxton spoke yesterday about the importance of land taxes in Australia to the central government, he apparently was misinformed, because the total of the land grants or land taxes collected in Australia is one per cent of their tax dollar. However, I just mention that to keep the record clear in that respect.

But when we come to the amount of the grants made to the state governments in Australia under the agreements which are to come into effect on July

I next, I would point out that after taking into consideration the present low rate of exchange of the Australian pound, and putting the grant upon the proportionate basis as between their population and ours, their grant to the state governments for the vacation only of the income tax field is equal to \$234 million to the Canadian provinces.

But it would be very unwise for us to take the Australian pound at that depressed rate of exchange, because for all practical purposes within Australia the pound is worth par value. And on a par value basis, those annual grants to the state governments, given in return for the vacation of income taxes by the state governments, and the sole occupancy of those taxes by the state government—those grants upon at parity of exchange and in relation to population would amount to the equivalent of \$317,000,000.

The estimate placed by the dominion government upon the value to them of the six minor fields of direct taxation is based upon a complete fallacy, and at the same time should be a warning to every Canadian taxpayer as to the real intention of the dominion government. It is based upon a fallacy, because it places the full potential present dollar value of all these combined taxes at their present combined levels, while at the same time refusing to consider any such basis in determining the present value to the provinces of their prior rights in the vast fields of corporation and personal income tax.

It is a warning to every Canadian taxpayer, because it shows that in spite of the promises repeated here this morning to reduce taxation, the dominion government intends to maintain these double taxes at their present or higher levels, in spite of all the assurances which have been given to the effect that annoying double taxation was only a war emergency.

In view of the stand taken by the dominion government this morning it is now apparent that there is an added and vitally important reason why the dominion government should vacate these minor fields under the terms of any agreement.

We have already pointed out that if we are to vacate the great fields of corporation and personal income tax, yielding as they did last year \$1,555 million the dominion government must vacate the minor fields of direct taxation which yielded them last year less than \$75 million, so that double taxation, and the annoyance of double taxation, may be avoided.

We have also pointed out that if we are to vacate these two great fields of taxation in return for an annual payment which will be little more than a quarter of our total budgetary requirements we must have available to us, without any doubt, assured fields of taxation left, or we would be completely dependent upon the dominion government for our financial requirements according to their wishes from time to time.

Now, to-day, we have this added and extremely important reason given to us by the dominion government. If we, the government of Ontario—and I presume in this respect to speak for no other government—if we are to protect the farmers, the truckers and the producers generally throughout Ontario from crippling double taxation we must have the exclusive use of these minor fields.

Do not let it be said that any door is closed, or that any take-it-or-leave-it attitude is being adopted. I say that if crippling double taxation is to be avoided we must have the use of these fields; because we are not going out of those fields which we have occupied for such long years, and for which we have the trained, skilled and long established civil service.

As an example, we in Ontario do not charge a gasoline tax to our farmers for the gasoline that is used in the tractors or other farm equipment engaged in their production. This is not only an advantage to the farmers of Ontario, but it is an advantage to the whole of Canada, and at this moment particularly to those people outside of Canada who are so greatly in need of food.

The dominion government has imposed a flat three cents excise tax on all gasoline. In the interests of production at this critical time we want that tax removed from all automotive equipment engaged in production. It is in fact an urgent requirement to facilitate the production of food. This also applies to other production activities which are as vital a national need as anything which has been mentioned here.

In urging that the dominion government vacate these fields so that double taxation may be avoided, it has not been our thought in any single case to increase our provincial rates so that the result would equal the combined total of the double taxes created by the dominion government.

I hope there will be no suggestion that this means the promise of a reckless reduction of taxes on the part of the Ontario government. I must repeat that the dominion government made it clear that when double taxes were introduced this was only intended to meet the emergencies of war. The dominion government has said over and over again during this conference and elsewhere, that it is going to reduce taxes if agreement can be reached here. It would be a strange thing indeed if the provincial governments were to be told that they must not reduce taxes, but that on the contrary they must hold up their taxes to the very limit so that the dominion government may give the appearance of helping the people of Canada. It has been said over and over again, and will evidently bear repeating, that there is only one group of taxpayers in Canada for all the taxes that are paid. They are the people of the nine provinces.

The suggestion now made by the dominion government merely means that the provincial governments are asked to hold up the level of double taxes, and to permit double taxes in many fields created by the dominion government in the fields which they occupy, which the provinces have occupied for a long time, and that they do this so that the dominion government may be permitted to appear as the generous and understanding helper of the Canadian taxpayer.

The Ontario government has insisted from the beginning that there must be a reduction of taxes, and that there can be reduction of taxes if double taxation is avoided, with the resultant avoidance of double administrative and supervising costs.

There is no better way to make an immediate and successful attack upon the high level of taxation than for the dominion government to vacate these minor fields which they have occupied and thus make it possible to reduce these annoying and embarrassing double taxes.

In asking the provinces to vacate the flexible and progressive tax fields which are theirs by legal right and by moral obligation as well—and I refer back now to the undertaking in 1941 and the contractual and statutory undertaking in 1942—the dominion government expressed their belief that even the appearance of double taxation should be avoided. We have made it clear that we are prepared to meet them on that point.

In our first submissions we proposed a method which would have produced no double taxation in spite of what has been said, and for the very reasons explained very clearly by the Premier of British Columbia. Nevertheless in the interests of agreement, so that even the appearance of double taxation would be avoided, we agreed to vacate those two great fields of corporation and personal income tax. In doing so, we say that if the principle so vigorously and so constantly advocated by the dominion government is sound, then it is equally sound in those other fields of taxation and all we ask is that they follow that procedure right across the board in the interests of the Canadian taxpayer.

We have long been in those fields and unless there is going to be double taxation the dominion must vacate them for reasons so obvious as not to need any amplification here—vacate them and let the provincial governments with their own trained civil service carry out their tasks.

These double taxes can result in more than merely costly duplication. They are embarrassing, they are annoying taxes, to the producers of Ontario and I would assume to the producers of every other province.

Quite apart from the fact that this is the only way in which double taxation can be avoided, there is also the fact that this double taxation in the minor fields, brought about by the entry of the Dominion government into these fields during the war, must double administrative staffs and double organizations for the purpose of collecting and inspecting the collection of these taxes. The double occupancy of these fields is not only thoroughly unsound but it creates an entirely unnecessary—I repeat, an entirely unnecessary—double civil service organization on a large scale throughout the whole country for which the Canadian taxpayers must pay, and it is the same Canadian taxpayer. It means the setting up of a whole administrative staff at Ottawa upon a permanent basis and the appointment of a swarm of new civil servants who will move about the country to enforce, inspect and supervise these tax collections, although there are already highly trained civil servants in the provinces doing the very same work.

We have indicated our desire for social security and we have a very warm feeling towards any of those who have been temporarily engaged in Ottawa during the war, but I can assure you that no agreement into which we enter here will be for the obvious purpose, even though that may not be the designed purpose, of giving continuing security by an unnecessary extension of employment to those who came here to do war jobs, particularly when all those jobs can be carried out extremely well, with not an added cent to be paid by the taxpayers of Canada, if it is all done through the provincial agencies.

If there were any doubts before, the argument of the Dominion government this morning proves beyond any doubt the accuracy of the statement of Sir Wilfrid Laurier, and I quote:—

It is a completely false principle that one government should impose the taxes and another government spend them. This will always lead to extravagance.

We see right here the promise of whole unnecessary extravagance if the Dominion's proposals are accepted.

The government of Ontario has gone the very limit in making agreement possible, and when I say that it has gone the very limit I mean that it is prepared to make adjustments in detail, but not adjustments in principle or adjustments in regard to the net overriding amount which it receives.

In spite of the ironclad undertaking of the Dominion government—and I repeat, ironclad undertaking—and the statement of the Dominion Minister of Finance, fortified by an agreement executed between the governments and doubly fortified by a statute of the parliament of Canada and a statute of the legislation of the province of Ontario—in spite of that ironclad undertaking to return to us our taxing rights in the field of corporation and personal income tax, we have said that we will vacate those fields in the hope of achieving agreement. That I suggest is a very great step made by the government of Ontario towards agreement.

But we have said, and we repeat, that if we are to vacate those fields we must have other tax fields clear to us and we must be in a position to relieve the taxpayers of Ontario for double taxation.

The Ontario government, as I said before, is not here in the guise of clamorous beggars. It is not here asking for any concessions of any kind. It has offered to make a tremendous concession in the interests of national unity. In making that concession the least it asks, and the least it must demand for the protection of its own people, is that it be in a position to avoid double taxation and at the same time be able to carry out its own financial obligations to the people whom it represents.

Great emphasis has been placed here this morning on the amount that it would cost the Dominion government. I would point out that by the statement of the Dominion government itself, and upon its own computation, with which we do not entirely agree a total of \$188,000,000, it says, would have to be paid out by the Dominion government under our proposals not to Ontario alone but to all the provincial governments if our proposals were carried out uniformly across the board. Again, may I compare that with the \$234,000,000 which at the present rate of exchange and making allowance for difference in population has to be paid annually by the Commonwealth government of Australia to the state governments there, and that is at present rates of exchange, and as compared with a figured \$317,000,000 if the comparison were made at par value of the pound.

May I point out, having regard to one statement made by Mr. Claxton yesterday, that the state governments in Australia are in a very different position from the provincial governments here. In their wisdom or otherwise those who brought about the federal system in Australia decided not to give the residuary powers to the central government there, but for the protection of their civil and property rights they insisted that the residuary powers remain in the hands of the state governments, just as they have remained in the hands of the state governments in the United States. May I point out also that for that very reason the state governments in the United States were free during the war to benefit from the higher taxes received from the same tax source, with the same incidence of taxation applied to enhanced economy. As a result the state of New York has set aside hundreds of millions of dollars in reserve for its post-war activities.

The provinces of this country, every one of them, indicated their desire to co-operate to the fullest extent with the Dominion government during the war. They left no doubt that they were ready during the war to vacate such fields of taxation as might be required by the Dominion government in that emergency. I am certain that not a single government representative here to-day would at any time raise any question about his complete willingness to take such steps as were necessary and could be shown to be necessary in the interests of the people of Canada in time of war if that unhappy event should ever again confront us.

There is another reason why I find it difficult to understand the rigidity of the Dominion government in regard to the figure it says must be final no matter what internal adjustments must be made. In the interests of continuing trade they have given, or advanced, if they prefer the expression, \$1,894,000,000 to governments outside of Canada to maintain their level of governmental stability and consequently to maintain the productive ability and buying power of the people of those countries. They are loans made to these countries with the very definite knowledge that the primary purpose is to assist their governments to continue to be purchasers from Canada. But excluding the loan to Britain, which I for one support, I say that the record of repayment of these other countries to which loans have been made has not been marked by very rigid performance. These loans are made for a definite purpose. I am not taking issue with the loans advanced, the trade credits—call them what you will. But I do say that, when the Dominion government is concerned about money, the very first place it should show any latitude is right here in Canada where the benefits of any money spent will be lasting and assured benefits within the confines of its own national boundaries.

I am not going into detail as to the estimate of the cost to the Dominion government of these proposals of ours, because it is not a "cost to the Dominion government." I will simply say this, that the figures which have been given of the supposed added burden that will be involved include a number of figures which are to be taken care of out of these extra taxes that I have mentioned

before—an over-riding income tax and a poll tax. Yes, I grant the statement of the Minister of Finance that some of the cost of this will have to be paid out of the general revenues. That is true. And a very heavy burden of the cost of these proposals will have to be carried by the general revenues of the provincial governments, and that is one of the reasons why they should be extremely cautious not to go below the safety level in reaching the figures which they know will give them adequate financial ability.

We have placed these figures before the Dominion government. The other provinces have seen what our proposals would mean to them. They are the ones that will have to say whether these proposals would be adequate for their purposes. That I will not presume to say. But I repeat most emphatically that this does not mean an addition of tax costs to the taxpayers of Canada if these arrangements are carried out. It means an immediate reduction of taxes to the taxpayers, for the very reason I have mentioned: the avoidance of duplicating taxes, and, more important in the ultimate cost, the avoidance of a double civil service in the same field and the annoyance and inconvenience of two sets of tax collectors going around to these sources of tax collections and finding out how they can get that money. After all, as has been said by the Minister of Finance, the Dominion government has not close connection with local conditions, and all these are matters which are very much matters of local conditions.

Now as to the question of foreign exchange. It was said on behalf of the Dominion government that the Dominion government was being asked to relieve the provinces of their constitutional responsibility. No, not at all. That proposal recognized a very simple fact. It recognized that the Dominion government in its wisdom, now exercised control over international exchange, and that international exchange to-day is not subject to the free flow of the old methods of establishing rates of exchange. Through the Bank of Canada, and the centralization of financing here and the possibility of international arrangements between governments made possible through the existence of the Bank of Canada, they have established a rate of exchange, and no matter what trade balances may be established, the Dominion will fix the rate of exchange. It would seem only reasonable, therefore, that in regard to those obligations already incurred—certainly not to new obligations, but in regard to obligations already incurred as an incident of their continuing control over the rate of exchange which measures the amount we must pay to finance external obligations incurred in the past—they should take the necessary steps to compensate for the rate of exchange. It may be said "That is imposing a heavy burden on us." There are a lot of heavy burdens being borne as a result of the intervention of the Dominion government in the field of control. I would mention one of great importance in the province of Ontario. The price of silver, which is the same kind of silver whether it is the United States or in Ontario, is at very different levels indeed in Ontario and in the United States. That is part of the system of control. I am not questioning their right to exercise that control, but in these fields of control which have such a direct effect upon the economic position of the provinces and of the Dominion as a whole, it would not seem unreasonable that the money required to finance obligations under a fixed exchange, which is fixed by the Dominion government, should be provided by the government that does fix that exchange. I will even go so far as to say that there are many obvious ways in which the undertaking of that obligation could be adjusted within the Department of Finance in relation to the source of a great part of the revenue that flows into their coffers.

But I am interested here in the concern of the Dominion government that they should not seek in any way to change the constitutional responsibility of the provincial governments. We too are very concerned about that, and we are

very concerned about that in a wide field, and we are very concerned that by no indirect device shall the constitutional authority of the provinces to carry out their own work be other than fully retained. I repeat again that when we entered into these agreements which are now coming to an end it was with a particular undertaking and a particular promise, and unless those promises were intended to mean what they said at that time, and the rights of the provinces in these tax fields were to be impaired in no way when these agreements came to an end, those who signed those agreements were not fully aware of all that lay behind.

I wish it clearly understood that I am not speaking from second-hand information when I say that I know the government of Ontario entered into that agreement only because that undertaking was given, not merely in relation to succession duties but in relation to corporation and personal income taxes as well. The question may be asked, "Were you the Premier of Ontario at that time?" No; you have reason to remember who the Premier was. But, as the Prime Minister and many of his cabinet ministers here this morning will recall, immediately after the outbreak of war I came here with the Premier of Ontario to offer the co-operation of the opposition, along with representatives of the government side of the legislature, in every measure which would assist the conduct of the war; and, as we were reminded the other day by the Premier of Nova Scotia—who at that time, or during the war years, was one of the Dominion Government ministers and did a magnificent job as one of the most important wartime cabinet ministers—there was no time during the war when the Government of Ontario withheld anything which would assist in the overall conduct of the war by the Dominion Government. As a result of an agreement which might, in the parlance used during the war, be described as "a political truce", the Opposition was taken into the confidence of the government in Ontario with regard to those measures which affected the conduct of the war. In that respect I have nothing but the highest praise for the extent to which the then Premier of Ontario took me into his confidence. When these agreements were under consideration they were discussed fully with me at every stage. Therefore I speak with knowledge when I say that the government in Ontario, which as the Minister of Finance remembers was very reluctant to sign this agreement, only signed it when an explicit undertaking was put in there that when the war ended these tax powers should be returned, and that was not limited to the succession duty field.

Mr. ILSLEY: May I ask a question? Is the Premier of Ontario saying that some undertaking was given which is not contained either in the speech I made in the House, the Budget speech, or the agreement itself?

Mr. DREW: No, I am not saying that for a moment. What I am saying is that the agreement in the most explicit terms carried out the statement of the Minister of Finance in April 1941; and there was a double undertaking in the agreement; because in the preamble, which I admit is not as binding as the positive undertakings in the sections themselves, there was nevertheless a reference to this, as follows:—

Whereas the province shall not, by agreeing as hereinafter provided to desist from imposing certain taxes during the term of this agreement, be deemed to have surrendered, abandoned or given over to the Dominion any of the powers, rights, privileges or authority vested in the province under the provisions of the British North America Act, 1867, or any subsequent Act of the Parliament of the United Kingdom, or otherwise to have impaired any of such powers, rights, privileges or authority.

And then you went on with this explicit undertaking:—

The Dominion shall have the sole right to levy taxes on personal and corporation incomes of the calendar year ending on the 31st day of December nearest to the date of the termination of this agreement, and with respect to personal and corporation incomes in the following calendar year—

Here is the undertaking:—

—undertakes to reduce its rates of taxes by such an amount as will enable the province again to use the income tax and corporation tax fields.

That is a positive undertaking.

Mr. ILSLEY: Yes.

Mr. DREW: It is a positive undertaking, and what I am saying is that if it was not intended to mean exactly what it says then we must be extremely careful that we know exactly what is being said now. The references in respect to which I approach this point will be easily determined by an examination of what happened the first time this point came up. But let us not get on any argument as to whether we will or will not vacate these fields. We have undertaken to vacate these fields for the term of a transitional agreement provided we receive the money which is necessary to carry out our constitutional obligations upon a basis which is related to our needs, and upon a basis which was established by the exact offer of the government of British Columbia last January as the value of these taxes.

I can only say that the rigid position of the Dominion government, the fact that it says, "Here is what you are going to get although we may possibly make certain adjustments within that amount," makes agreement impossible.

From the very first time we came here I have said that an agreement is absolutely essential. There will be only one reason why this conference breaks down and we do not get an agreement, namely, that rigidity which says, "Here is the total amount; you sit around the table and divide it up." In the interests of preventing any such catastrophe as the breakdown of this conference I believe there is only one thing that can be done to save the situation.

I said yesterday that a large part of the difficulty created for the Dominion government was that instead of dealing strictly with the tax agreement they incorporated in these proposals a number of extraneous subjects which impose heavy additional burdens. Although they did not disclose it in the statement last Monday, the Dominion proposes to impose other taxes for the purpose of carrying out the major part of these extra obligations.

On the figures computed by the Dominion government itself the proposals we have made will amount to an annual payment to all the provinces by the Dominion government of \$188 millions. I think that figure is a little high. That seems to arouse something approaching horror in the mind of the Minister of Finance; and yet that is the money which is going to make it possible for the governments to do the business of the people of Canada in most of their personal fields. What matters is that the unexpected announcement of one minister here would cost the taxpayers of Canada \$250 millions or \$350 millions a year, and all the other promises made in fields of great concern to the provinces without at any time consulting the provinces, will mean added costs to the amount of hundreds of millions of dollars?

Before the Dominion government raises its hand in outraged horror and says we must give up, before it does that, let us examine some of these fields which it entered, fields declared by the Privy Council to be provincial, fields which were entered under the device that the Dominion government could make these payments because they could levy taxes without regard to their ultimate

purposes. Let them examine this; let them examine their new proposals. Let them impose a careful check on their ministers before they make new promises without previous consultation with the provinces.

There is one way that this situation which is, I repeat, the sole responsibility of the Dominion government, can be saved. The difficulty is created by trying to bring all these things together and then trying to sell them with these added responsibilities. The Dominion government has heard the provinces express those opinions which are fully before them. No provincial government wants speed in reaching a settlement more than the government of Ontario. But speed which would bring as an inevitable concomitant the failure of the purpose for which we have met here is not speed that any government can seek, no matter how earnest its attempts may be for early agreement.

The Dominion government knows the needs of the provinces. It knows where the heaviest fields of tax responsibilities lie. It has had the figures from the submissions of the provinces and from the calculations of the Economic Committee. I strongly urge that the Dominion government observe the remarks made by the Minister of Finance yesterday that you could not quickly make decisions on these things. Decide how long it will take to revise your position in the light of the clearly stated position of the provinces, then call us together to consider a transitional tax agreement which will deal only with the transitional tax problem and leave us free to consider as separate problems other matters upon which we all agree in principle but in regard to which neither the Dominion government nor any other government has the essential statistics. In that way there is still hope in the interests of unity, in the interests of carrying out the objective of this conference. I do urge you to carry out that suggestion.

Mr. DUPLESSIS: At the beginning of August, last year, nine months ago, this Conference started its work. Since that time, we have had many meetings in Ottawa. The present meetings began on Thursday, last week; so as to be in Ottawa for the opening of the present meetings, on Thursday of last week, in the forenoon, I had to leave Quebec on Wednesday of last week. Since this conference started, unfortunately, Ottawa has not changed its stand and it has declared many times that the federal proposals are fundamentally irrevocable.

It seems to me that this morning's meeting is most illuminating. At first, we got from Ottawa a proposal of \$12 per capita. Later Ottawa said they wanted to increase their proposal to \$15 per capita, the federal authorities giving the impression that they were making an offer of \$3 more per capita. As a matter of fact, there was no such increase of \$3, and the Minister of Finance had to admit it. It was conclusively proved that the apparent federal increase from \$12 to \$15 per capita amounted really to around fifty cents per capita. These federal tactics do not tend to convey the necessary confidence.

Yesterday, the Premier of Ontario made another proposal by which, instead of Ottawa paying \$15 per capita, they would pay only \$12 per capita. This morning, the Minister of Finance declared that the \$12 per capita proposal of Ontario would increase the federal contribution to the tune of \$134 million over and above the \$15 per capita offer made by Ottawa. It goes to show, Mr. Chairman, that these tactics and fallacies, with regards to certain figures, cannot be conducive to friendly co-operation. Real co-operation must be based on frankness and logic.

Last Monday, the Rt. Hon. Prime Minister made a speech, as always eloquent, in which he stated that in no case will the Dominion payments to a province be less than 150 per cent of the province's annual receipt under its Wartime Tax Agreement.

This morning Mr. Ilsley stated that the so-called increase, referred to by the Rt. Hon. Prime Minister as 150 per cent, amounted really to 59 per cent, a difference of about 100 per cent. There is certainly at least a mistake, but a costly one. Again confidence is shaken.

More than that, Mr. Chairman, the federal proposals lead to disappearance of the provincial taxing rights; in short, to the disappearance of our federal system.

The Premier of Ontario quoted today and Monday a very eloquent and persuasive statement made by one of Canada's greatest statesmen, Sir Wilfrid Laurier, to the effect that a policy of federal subsidies was absolutely wrong and always led to extravagance. You may be interested, Mr. Chairman, in knowing what his successor said on the same subject. Sir Wilfrid Laurier spoke in 1887, his successor spoke in 1930, 43 years afterwards, and the span of time between 1887 and 1930 proved conclusively the soundness of that policy.

What did the successor of Sir Wilfrid Laurier say about the policy of federal subsidies proposed by the federal government to the provinces? Let us read the official debates of the House of Commons, fourth session, sixteenth Parliament, 20-21 George V, 1930, Volume II, 1930, page 1237. It is a very important statement indeed, Mr. Chairman, and I should like you to listen to it very carefully. I quote:—

When on a previous occasion we were discussing this matter of grants from one treasury to another, I said I thought it was an unsound principle; in fact, I think I used the expression that it was a vicious principle to have one body raise the taxes and another body spend the people's moneys thus raised.

I agree with him and that is why, agreeing with Sir Wilfrid Laurier and his successor, I cannot logically and honestly accept the federal proposals. I suggest that there is no use wasting more time when work is piling up in the province of Quebec, as in other provinces and when the administration of affairs in that province is as important to us as federal administration is to those in Ottawa.

The federal proposals are unacceptable for the very many reasons I have given and which it would be unnecessary to repeat. As stated by me, the door is left open—if I may say so without offence to anyone—for Ottawa to come to a better sense of proportion.

The door is left open for friendly co-operation and understanding, based upon the fundamentals of the constitution and taking into account the past, the present and the future.

From Quebec I shall expect a call to which I will gladly answer; a call for sincere co-operation with the federal government and with the provincial governments, on a solid, frank and fair basis, with a view to achieving the aims of Confederation and of improving, if appropriate, the means and methods available to us to achieve these aims. For this purpose, again I repeat the door is open, but as it would be undignified to remain on the door-step, I will expect a call in my office in Quebec City.

Mr. MACDONALD: Mr. Chairman, I shall take but a few minutes, but I should like to set out one or two propositions and to make one or two specific recommendations.

I must remind the conference, as I did once before, that before the war the provinces and the municipalities were spending more money, about fifteen per cent more, than was the Dominion government. The last year for which I have figures shows that the provinces and municipalities were spending \$659 million whereas the dominion spent \$571 million. I see no reason why, within a very few years, that relative position of spending will not be once more attained.

It is true that for the moment the dominion has tremendously great new burdens caused by the war and by the interest on its debt. But I must point out that the provinces and the municipalities are faced with burdens that are constantly growing, burdens of education, of public health and other burdens

to which the premier of Ontario referred this morning, such as the administration of justice in the province and social services. I have no reason to think therefore that within ten years or so the provinces and municipalities will not again be spending as much money as the dominion or more.

The second point is this. Last year the dominion government collected income tax—and I have made some allowance for the refundable portion and for the excess profits tax—amounting to \$1,200,000,000 in round figures. That was what the Dominion government received in income and corporation taxes.

At this conference one province after the other, speaking through its premier, has agreed to give to the dominion the sole right, for the period of the agreement, to levy these taxes, income and corporation. There is no doubt about the right of the provinces to remain in these fields. And assuming that they exercise their undoubted right, and to the same extent and at the same rates as the dominion, they would be able to collect from income and corporation taxes, on last year's basis, the sum of \$600,000,000.

Speaking to the representatives of the dominion government here, I say that is a tremendous concession on the part of the provinces, and I hope the people of the country realize that, in this regard, nine provinces have gone a very considerable distance when they have surrendered completely the two greatest fields of taxation left in Canada and have said to the dominion government, "Take the whole thing." That is, as I say, a great concession. There has been nothing like it in the history of the country. There was nothing like it at Confederation. The provinces then made great surrenders; indeed, I have always thought that they made surrenders that were far too great, that were ill-advised and ill-considered.

But here are the provinces yielding to the dominion, without hesitancy, without any question, these two great fields from which they could reap, legally and constitutionally, if they wanted to do so on the same basis as the dominion, \$600,000,000. Yet they are handing willingly—if not willingly at least unqualifiedly—these fields to the dominion.

Yesterday, Mr. Chairman, you suggested yourself, and so did the Minister of Finance and perhaps the Minister of Justice, that the provinces should make some suggestions. It was intimated that the provinces have no plan of their own. It may be difficult for all the provinces to agree on a plan, and I gather from the Minister of Finance this morning that such a course was not necessary or indispensable, that one province could perhaps make an agreement with the dominion of a somewhat different nature from the agreement entered into by another province, so long as proper differentials and relationships were maintained and so long as the dominion government did not suffer financially.

Mr. ILSLEY: Those differentials would have to be satisfactory to all the provinces.

Mr. MACDONALD: Yes. They would have to be satisfactory to all the provinces, but it is not absolutely essential that each province should have exactly the same agreement as some other province. That was a concession that might prove to be of considerable value and I will make some suggestions along that line in a moment.

The dominion has said frequently that while it will consider changes in detail within the existing general framework of its proposals, it cannot consider any changes which will involve to it any loss of revenue. For it feels—and we understand this—that it has heavy commitments which it must meet, and to meet those commitments it must have money.

I should like to point out that there is more than one way of balancing a budget. There is more than one way of lowering income tax. Much has been made of that at this conference. That statement has been repeated again and again, that if income tax is to be lowered then the dominion proposals them-

selves—that is the effect of the statement at any rate—must be accepted. And the implication—I do not say that this is the implication desired by the federal minister—which will spread throughout Canada, is that if this conference fails and income tax is not reduced, the responsibility will rest on those nine wicked men from the provinces who came here and refused to enter into an agreement.

But, I repeat, there is more than one way of reaching a goal. There is more than one way of balancing a budget; there is more than one way of lowering income tax; and one of the simplest of all ways is by reducing expenditures. The only other way I can see would be by so increasing the national income as to enable you, with the same rates or with lower rates, to get the same or a greater yield. I know of no other ways in which budgets can be balanced or taxes lowered.

As to reduction of expenditure, may I point out one or two ways in which the dominion can reduce expenditures, and no one in this dominion will suffer. At any rate, I do not think anyone will suffer. It is a part of the dominion proposals, it is a part of their plan, that they shall pay old age pensions to everyone over the age of seventy without any means test.

This is a time for frank speaking, and while there may be a great deal to be said in favour of paying pensions to everyone over the age of seventy without a means test, I must confess that when I look at the figures produced by the dominion government and read the number of income tax payers whose income is over \$500,000, over \$100,000, over \$50,000, over \$25,000, over \$10,000, and when I see all these people of great wealth, with incomes in excess of those amounts, receiving \$30 a month as old age pensions, as one who comes from a province where frugality is still considered to be something of a virtue, I am very greatly surprised at the plan to give an old age pension to everyone over the age of seventy whether he needs it or not.

I make this suggestion to the dominion government in this regard—it is one of a series of propositions. There are many alternatives but this is one. Let the dominion government leave old age pensions as they now are, divided between the dominion and the provinces, the dominion paying seventy-five per cent and the provinces twenty-five per cent. Instead of costing \$200 million as proposed, if you pay everyone a pension without the means test, this plan will cost \$68 million, as it does at present, subject possibly to some very small increases brought about by the passage of time. There is a saving of \$132 million which the dominion can make if it so desires.

If that proposal is not acceptable to the dominion, if they are still insistent upon paying old age pensions to millionaires and to other people with high incomes, then I suggest as a possible alternative that the dominion government pay a flat rate of \$20 without the means test instead of \$30, as proposed now. In this way they would save one-third of the \$200 million they set aside for old age pensions, or something like \$66 million. That is the saving they would effect if they adopted that course, paying a flat rate of twenty dollars without the means test—if they insist on abolishing the means test—and they could allow the provinces to come in and supplement that \$20 on the means test basis.

The dominion government will, I say, save there \$66 million which is more than the amount, or at least about equal to the amount of some of those taxes such as gasoline, amusement, pari-mutuel and so on.

I suggest, in the third place, that as to the gasoline tax we are prepared to accept the proposal made on Monday by the Prime Minister that they would be prepared to surrender that field in return for an adequate financial equivalent. In the case of gasoline he said that such equivalent might be a reduction in the specified annual payment to the provinces equal to the amount now being collected by the dominion from this tax. On the calculation that in Nova Scotia the dominion government has got about \$1,100,000 from this three-cent levy on

gasoline—and the exact figure can be obtained, although it is in that neighbourhood—after having discussed this matter with my colleagues last night I am quite willing to accept that proposal by the Prime Minister, and have that amount of \$1,100,000, or whatever it may be, deducted from the subsidy which otherwise would be payable to the province.

In the case of amusements and pari-mutuels, if plan one or plan two were adopted—and with the old age pension I have suggested—then of course if plan one or plan two were adopted, and it was either \$132 million in one case or \$66 million in the other, we would not have to worry about those small taxes, at all. But if neither of these first two plans should be adopted, then in the matter of amusements and pari-mutuels we would be willing to make arrangements with the dominion along similar lines to those proposed with regard to gasoline. That is to say, we would pay the dominion what it would get from those sources, if it remained in the field.

I should like to see the dominion agree to go on further—and this point has not been dealt with either by the Minister of Finance or by the Minister of Justice, although it is a point upon which the provinces have definite views—that the dominion should agree to go no further into the field of direct taxation than is now proposed. The two fields are pretty well covered, I think, and perhaps that agreement is not as important now as it was at one time. But I see no reason why the dominion having got those two great taxes, and having kept its nose under the succession duty tent, should not say, “We say we will go no further into any other direct fields of taxation, because we believe something has got to be left to the provinces.”

I come to my final suggestion, and it is this: We have agreed here on many points, and we have disagreed on a few. I think that in number and in importance the points of agreement are much greater than the points on which we have differed. I say great progress has been made at this conference, since January. We parted in January with a great many points in dispute, a great many points in doubt, a great many points on which one or other of the delegates here wished further information.

Many of those points have now been cleared up. There are some which still remain. Some proposals have been advanced to-day, or were advanced yesterday, which I think we should have time to study. For myself, and for my colleagues in the Nova Scotia government who are here, may I say that we only finished the sessions of our legislature on the Thursday preceding Good Friday. Then on the Friday, Saturday, Sunday and Monday we had to do work which, because of the pressure of sessional duties, had been neglected. We left Nova Scotia on Tuesday, and have had very little time since the last conference in January to give proper study and thought to these great and serious matters.

The premier of Quebec for some days has been eager to go home, to what he regards, and rightly, as pressing duties in his own province. And you, Mr. Prime Minister, I believe have duties of the greatest importance which will take you overseas some time in the not distant future.

I would therefore suggest that after the other delegates have spoken, if they wish to speak, this conference should adjourn, to be called some time in the month of June, or when the Prime Minister would return to Canada, and at such time to reconsider the matters which have been raised now and at other times.

Some people are saying, of course, that it is very slow, and that we are dragging along. But we must remember that they began to sit in the confederation conferences in Charlottetown some time in the fall—September I believe it was—of 1864. And they did not finish those conferences until December 24, 1866, in London—more than two years later. I do not worry about that.

I know the Minister of Finance is concerned about his budget. I think, however, he will find some way or another of framing his budget, if it has to be

framed, to take care of any eventualities, remembering always of course that some of the agreements in any event do not terminate for a year, and that others terminate only on October 30 or November 30 of this year.

I strongly urge, then, Mr. Chairman, that after the other delegates have spoken and advanced their views either respecting the Ontario proposals or the dominion proposals, or to advance their own, we should adjourn to meet again at an agreed time—say some time before July 1.

At 1.05 p.m. the Conference took recess.

AFTERNOON SESSION

The Conference resumed at 3.40 p.m.

Mr. MACKENZIE KING: Gentlemen, the secretary just handed me the following note given to him on behalf of the Premier of Quebec, Premier Duplessis, which reads as follows: "Prime Minister of Quebec for reasons already stated many times at these meetings and owing to pressure of business has been obliged to leave for his office in Quebec City." I think we are all now present with the exception of the Premier of Quebec, so we will proceed.

Mr. GARSON: Mr. Chairman, it was suggested by the Premier of Nova Scotia that we adjourn to a later date to resume the sittings of this conference. But for us, the supreme importance of an agreement being reached makes us quite willing either to do that or to exhaust any other efforts that may be necessary to accomplish that purpose. But I would like to point out, Mr. Chairman, that while in the case of seven of the provinces, the difference between their views and those of the Dominion is one which I think could conceivably be bridged by further negotiations and compromise, it would seem that the differences between the province of Ontario and the province of Quebec on the one hand and the Dominion on the other present a very much greater difficulty indeed.

If I understand the figures that were presented, the Minister of Finance has said that the Ontario plan would cost the Dominion treasury from \$135,000,000 at the minimum to \$270,000,000 at the maximum, over and above the cost of the Dominion proposals themselves. Premier Drew has said—and although I tried to take down his statement with care, I hope he will correct me if I am wrong—that Ontario is prepared to consider and make adjustments under this plan; but in relation to matters of principle, and in relation to the overall financial benefits which it would demand, it intends not to recede from a firm stand.

It seems to me that this means that the financial position, the over-all financial position of the Ontario plan is just as rigidly adhered to as the adherence which the Minister of Finance states must be observed with regard to the over-all cost of the Dominion proposals. This leaves a gap of at least \$135,000,000 between the two plans which, it may be noted, is about two-thirds of the entire amount of the proposed Dominion payment which would be made to the provinces in consideration of the vacation of the three fields, corporation, income, and inheritance taxes.

During the course of these proceedings, Mr. Chairman, Premier Drew has expressed wonder why such a large part of the speeches made by the other delegates have been taken up with consideration of his statement, with consideration of Ontario's position; but surely he must realize that because the provinces of Ontario and Quebec contain so much of the population and of the wealth and of the political power of Canada, it follows that in any conference such as this, quite as much depends upon the statesmanship of the premiers of those two provinces as depends upon the statesmanship of the federal ministers.

I do not think that we smaller provinces need to delude ourselves or flatter ourselves that the influence which we bring to bear, at the conference table, however skilful or unskilful it may be, is as great as the influence of these two large provinces on the one hand, and of the Dominion on the other.

Premier Drew has stated that his province does not come to this conference as a clamorous beggar, and everyone of us, I am sure, would entirely agree with that view. There seems to be little doubt, certainly in my mind, that the Ontario treasury, as apart from the Ontario people, will be better off financially without an agreement than with an agreement. But that is not true of other provinces. And speaking only of Manitoba, it is certainly not true of my province. Indeed, for reasons which have already been stated at some length, Manitoba's position is that if no agreement is reached, it will not be in the position of a strong provincial government within Premier Drew's own definition of the term. It will be recalled that in his opening speech last August, after first noting that a strong central government was necessary in this country, Premier Drew said that "at the same time, I think it is equally important—and I think the Prime Minister has expressed the same view from his remarks—that there be strong provincial governments which are free and adequately financed to deal with their own affairs with the utmost dispatch and without restrictions of any constitutional difficulties or lack of definition of their powers."

Now, may I point out that, to be adequately financed involves, in the case of any province, not only having the powers to impose taxes, but having enough taxable resources upon which to impose such taxes. The only way in which we, in Manitoba, can be assured of being adequately financed in order to meet the eventualities of the future, is by reaching an agreement.

As I have already stated at the beginning of this present session of the conference, we in Manitoba are quite willing to sign an agreement based upon the Dominion's proposals as finally modified. We note now that the government of Ontario says that these proposals are not generous enough to meet the needs of Ontario. The Ontario government suggests a settlement on terms proposed by it which would have the effect, according to the Dominion Minister of Finance, of imposing upon the Dominion treasury an increased cost of from \$135,000,000 to \$270,000,000 per annum over and above the cost of the Dominion proposals. From the best figures that we can arrive at, and again I speak subject to correction, a greater proportionate share of this increased cost would go to Ontario than to the other provinces of Canada, the payment for Ontario being \$27 per capita as compared with an average of \$24 per capita in the other provinces. This would be a sort of fiscal subsidy in reverse on the principle that "for he that hath, unto him shall be given, and he that hath not, from him shall be taken away even that which he hath."

If Ontario feels that their needs require a change in the Dominion's proposals, which would give Ontario a greater advantage than the rest of Canada and impose an additional cost on the Dominion treasury, I suggest the sudden announcement of this change in the closing hours of the conference is as effective a method as could be devised to destroy any possibility of agreement being reached between all of the provinces and the Dominion. Now, from our standpoint, the sad part of it all is this, that the less well-to-do provinces can only look on from the side lines at the manoeuvres of the great powers in this conference, relatively powerless to do anything about it. Yet the less well-to-do provinces will be the first and the chief victims of the failure of the large provinces and the Dominion government to reach an agreement.

Premier Drew has said, on many occasions, speaking both inside as well as outside of this conference, that it must succeed; that the provincial governments must be adequately financed to deal with their own affairs with the utmost dispatch; and that he and his colleagues are Canadians first, last, and all the time; and that the provinces are all members of one great team.

Premier Duplessis, who I regret is not here this afternoon, has given us similar assurances of collaboration and co-operation. In both instances, may I say that I have taken these assurances at their full value and that I have, on more than one occasion, defended those statements and I have been, in fact, called a dupe for having accepted these statements and for having defended them as being made in good faith . . . even on the floor of the Manitoba legislature. We now approach a time when it will be disclosed whether we, who believed those assurances of Premier Drew and Premier Duplessis, were dupes.

It is not my business to express any judgment on the wisdom of the decision of the Ontario government, in its own interest, in not accepting tax proposals which Manitoba, from the beginning of the present session of this conference, has been willing to accept. It may well be that they need from the Dominion more generous treatment than that with which we would be content. The duty of deciding that, for Ontario is quite properly that of Premier Drew and the Ontario government; but I am sure that he would respect our rights to deal, with Manitoba's affairs, as we do his with those of Ontario; and, in our judgment, our position under an agreement based upon the Dominion's proposals, would be very much superior to that which would obtain without an agreement.

I imagine there are other provinces in the same position as Manitoba in this regard; and I affirm that it is the financial plight of Manitoba and these other less well-to-do provinces which are desirous of reaching an agreement . . . it is the financial plight of these provinces . . . and not the plight of Ontario or Quebec . . . which will complicate Canadian public finance in these difficult transitional times through which we are going; it is the plight of these provinces which will constitute an obstacle to prosperity and high employment in this country.

It is we who, in our efforts to get revenue will be forced against our will into adopting expedients which will not be in the public interest, but which we shall have to adopt as the least of the evils with which we shall be confronted. As I have pointed out, it was our plight which was one of the most important reasons for the Sirois Commission being appointed, and for this conference now being in existence; and it is our plight which must be cured, if there is going to be any health in Canadian public finance.

As I have said, to conclude an agreement on the basis of the Dominion's proposal will cost the Dominion treasury from \$135,000,000 to \$270,000,000 per annum less than it will to conclude an agreement on the basis of the Ontario proposals. If Ontario, not being able to get an agreement based on its larger figure, prefers not to enter into any agreement at all, what I would like to ask Premier Drew is this: whether as one who has the interests of the whole of Canada at heart, he and his government would not be quite willing that those provinces who are desirous of concluding an agreement based on the Dominion proposals should do so? This would cost the Dominion much less than his proposals. He would be able to carry on without an agreement, as he prefers. Our weak financial position would be made strong. The public finances of our country would be strengthened. The chances of unemployment would be lessened; and the chance of prosperity for Canada, in all our provinces, including Ontario, would be increased. We naturally would have greatly preferred to have entered into an agreement to which Ontario was also a party, but if the Ontario terms are so high that the federal government cannot possibly meet them—and a minimum difference of \$135,000,000 is no inconsiderable sum, even as between governments—then, it may be that that cannot come about. But if Ontario is not prepared to sign such an agreement with the Dominion itself, I hope she will not stand in the way of the other provinces reaching one to which Ontario is not a party. Under the circumstances I can quite understand the reluctance of the Dominion government to make an agreement with

the other provinces, if Ontario and Quebec were strongly opposed. Indeed, for all I know, the Dominion government may be not only reluctant but quite unwilling to enter into such an agreement on any terms; but I am sure that the expression by Premier Drew of his government's assent to such an agreement, which would cost his government nothing, would be most helpful, and I would be glad to know from him if it is available?

Mr. DREW: The Ontario government's position has been very clearly stated and it requires no amplification. But I will say that the figures of cost given by the Dominion government this morning are pure, unadulterated nonsense, and that the proposition put forward by the Ontario government is one that should be acceptable to everyone here. I said that our position had merely been stated in exact terms because we had been offered no alternative, but it was stated with no take it or leave it spirit. We were told, this morning, that they were merely repeating their statements made on Monday and Tuesday, and that their emphatic "no" then is the "no" we have now.

Mr. ILSLEY: There was no variation except in one particular, a very important figure, with regard to the charge that the figures I gave are nonsense? . . .

Mr. DREW: I said: pure, unadulterated nonsense.

Mr. ILSLEY: Perhaps a little rebuttal of the figures would be much better than that kind of language, however forceful.

Mr. DREW: If I used forceful language, I did so in reply to the special pleading now being put forward on behalf of the Dominion government. But I pointed out before that you were including in your figures costs that are to be taken care of by these other taxes, at least in a substantial part.

Mr. ILSLEY: Oh, no. That is not correct at all.

Mr. DREW: Yes, it is entirely correct.

Mr. GARSON: If I could have an answer to my question from Mr. Drew, I would appreciate it very much.

Mr. DREW: Ontario's position is clearly set out and I believe is understandable to anyone who will read it.

Mr. GARSON: I raise the point that there is nothing in Ontario's proposals which would constitute an answer to the question which I am asking now. If my honourable friend does not want to answer the question all right; a simple yes or no would be quite adequate.

Mr. MACKENZIE KING: The next speaker.

Mr. MACDONALD: I was going to ask a question about succession duties. Are you allowing succession duties there of \$50,000,000, in view of the fact that you are going to offset it against their payments?

Mr. ILSLEY: No. Ontario's proposal is that we get out of the succession duty field.

Mr. MACDONALD: But, if you both stay in the succession duty field?

Mr. ILSLEY: I was simply taking Ontario's proposal. Our proposal was that we alone would collect succession duties; but if the province does so as well, then the collections would be a little more than the collections of the present year, but not very much.

Mr. GARSON: Mr. Chairman, if the environment were other than it is, I would like to take cognizance of Premier Drew's attempted insult, that my efforts are a special pleading on behalf of the Dominion government. But I do not think that the bandying of insults is in keeping with the solemnity of proceedings of this sort. Therefore, I will pass the remark off in silence.

Now, what we are engaged in, here, Mr. Chairman, is in discussing the broad subject of public finance in Canada; not public finance in Canada before world war No. 1, but public finance in Canada after world war No. 1; and

more particularly, still, public finance in Canada after world war No. 2. That is the subject with which we are concerned. The subject with which we are concerned therefore, is a totally different subject from public finance in Canada in 1867 or even 1900, or even 1930.

When quotations are used which were originally applied to one set of facts, the aptness of the quotations as applied to another set of facts will be in proportion to the extent to which the two sets of facts are similar, and if there is no similarity there will be no aptness. The quotations used by Premier Drew taken from *Mein Kampf* and applied to the Canadian federal system; or from books dealing with the American federal system, which is in many respects very different from our own, can scarcely be quoted as being adequately apt in dealing with a discussion of the subject matter which we are now considering. It is no excuse to say that apt quotations with regard to this subject matter are difficult to come by. It so happens that this subject matter has recently been considered in the most complete and exhaustive enquiry which has ever been conducted in Canada. Of the specific recommendations of the report of the inquiry conducted by the Sirois Commission, one admits at once that there has not been unanimous acceptance; but so far as I know no one has questioned their statement and analysis of the problems with which they were concerned, which is much the same problem with which we are dealing now. Therefore, for the purposes of the record, in order to rebut the sort of material which was placed on the record this morning and on previous occasions by Ontario and to indicate the nature of the problem with which we are concerned, I would like to quote selections from the Sirois report under the heading of the "Canadian Economy and Public Finance" vol. II, pages 77 to 79 inclusive:

The Canadian economy is made up of a number of diverse and highly specialized areas. Partly as a result of the specialized character of the resources and industries of the individual regions, and partly as the result of national policies, these regions are closely related and integrated and are, to an important extent, dependent on each other. But although these regions may be economically complementary, and the existence of each vital to the welfare of the others, it does not follow that the income resulting from their joint effort is evenly distributed. On the contrary, it is a distinguishing feature of the Canadian economy, which has particular significance for public finance, that a very large proportion of surplus—and taxable—income of the country is concentrated in a few specially favoured areas.

The War and the Post-War boom—that is the first world war—introduced many new and complex elements in what had previously been a broad simple pattern.

I suggest, Mr. Chairman, that much of the discussion which has been brought forward on behalf of the province of Ontario in particular, at these proceedings, has been applicable to that broad and simple pattern and that it is not as applicable to the much more complex pattern that we are concerned with today.

Their economies became not only much more interdependent and complex, but in many respects much more delicate and vulnerable. Not only had overhead costs of Canadian industry grown much larger and more rigid, but the income of large areas became more and more dependent on specialized export activities and the huge initial investment connected with them. In addition to the Prairie wheat exports, which were still of dominant importance, mine, forest, and electro-products from Northern Ontario and Quebec, and from British Columbia, and automobiles and accessories from Southern Ontario created new regions which were basically dependent on internal trade and often on limited, highly fluctuating and uncontrollable markets.

In the thirties the vulnerability of the whole economy to uncontrollable external factors, as well as certain internal maladjustments and weaknesses, brought great distress. The former lifeblood of the whole system—the circulation of the wheat exporter's dollar—was choked off at the very source.

Premier Drew referred on Wednesday to the provinces of Ontario and Quebec as "the wheel horses of Confederation". May I call his attention to the fact that the lifeblood of his wheelhorses is the wheat exporter's dollar, and that without lifeblood the wheelhorses would be useless.

As the system slowed down, depression burdens were very unevenly and haphazardly distributed. At the same time overhead costs and accompanying rigidities increased, and intensified the maldistribution of income. Monetary policy was not directed, during the early years of the depression, to alleviate the burden or distribute it more evenly. Tariff policy, directed to maintain employment in some regions, threw a greater burden on the primary producers. Great efforts were made to adjust the regional economies to a local base, and there was a natural rise of local vested interests and local protectionism.

Ontario was fortunate in finding a new frontier and a new stimulus in its own northern mines, and this has done much to compensate for the loss of western markets and to relieve Ontario in some measure from dependence on the traditional transcontinental economy. The Prairie Provinces bore the full brunt of the collapse of the system, with no assistance from national policies in the early years of the depression, and with the added strain of an unprecedented series of crop failures. But there proved to be a limit even to the primary producers' capacity to absorb punishment, and in recent years relatively large transfers within the federal fiscal system, direct assistance to wheat producers, and involuntary write-offs by eastern creditors of western debts have redistributed a part of the burden.

One positive conclusion stands out: the situation is so serious that conflicts of policy between Dominion and provinces or between province and province have become a luxury which Canada cannot afford, and the sterility of policy which chronic conflict is apt to engender may be an even greater evil than conflict itself. Fiscal policies which have profound effects on the magnitude and distribution of the national income must be in a single hand and responsibility for action or inaction must be assigned with unmistakable clarity.

The implications for public finance of the economic and social changes which have occurred in Canada are of far-reaching importance. As a result of the transcontinental economy which was deliberately built up, with its notable concentrations of surplus income, and later as a result of the disintegration of this economy, no logical relationship exists between the local income of any province and the constitutional powers and responsibilities of the government of that province. In fact, the great expansion in organized social services which has developed makes the existing relationship contrary to all common sense.

My honourable friend Premier Drew criticizes the national social service program. The answer of the government of Manitoba is that in many parts of this country if the people do not get social services under federal auspices they cannot get them at all. And that is a fact I suggest which they will have to face sooner or later.

Expenditures almost automatically increase when income falls and revenues decline. The harder any particular area is hit, and the more impoverished its people, the greater are the burdens which that area

must carry. Even if it were possible to revert to the localized economies of 1867, it would be unjust to do so, for national partnerships cannot be dissolved when one of the partners finds the association onerous. The constitutional division of taxing powers, applied to the existing regional distribution of taxable income, has produced surpluses in some provincial budgets, and in others deficits which have inevitably been reflected in reductions of those community services which Canadians have come to look on as the minimum which their governments should supply. As a result Canadian citizens in some provinces are receiving educational, health and other social services much inferior to those in other provinces and (quite apart from any question of governmental extravagance or the provision of unusually costly services) Canadian citizens in some provinces are required to contribute a much larger portion of their income to the government of the province than those in other provinces. Provincial ability to borrow, and the fortunes of investors in provincial securities have fluctuated widely, erratically, and sometimes disastrously.

If our credit by the conclusion of an agreement or some such arrangement as that is not made strong enough in Manitoba and other similarly situated provinces, the results will be that we will not be able to carry out the post-war program of expansion, that we will not be able to buy road machinery and other products from the Ontario factories, and as a result the factories will have unemployment; men who otherwise would be employed under a rational system of public finance will go without employment.

Businesses operating on a national scale are hampered by increasing special (and in some cases discriminatory) impositions and regulations.

People talk about double taxation. It is not double taxation, it is at least quadruple taxation for any resident of Ontario who invests, say, in the Imperial Oil Company. What taxes does he pay? First of all he pays indirectly a corporation income tax which is paid in the first instance by the company and being paid thereby reduces the dividend he receives. This corporation income tax upon the company's profits is paid to the dominion government. Second, when a dividend is declared he pays a personal income tax upon that dividend to the dominion government. And then he pays indirectly a corporation income tax in every province in which the corporation does business and pays corporation income tax—and that will ordinarily be British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec. These make the third, fourth, fifth, sixth, seventh and eighth tax upon the same source of income. Next as a ninth tax he pays a personal provincial income tax on what is left to the province in which he lives.

Now, who in his right senses will say that an overlapping and heavy taxation system, of the sort which has just been described, encourages investment in corporation securities in this country? And that is the system which will still prevail if no agreement is reached.

The possibility of off-setting the impact of world-wide disturbances and depressions on the Canadian economy by financial and monetary policies has been virtually annihilated by the lack of co-ordination in governmental policies.

I think that bears repetition.

The possibility of off-setting the impact of world-wide disturbances and depressions on the Canadian economy by financial and monetary policies has been virtually annihilated by the lack of co-ordination in governmental policies.

In a country like Canada which is so vitally dependent on export trade are we ready to face the impact of world-wide disturbances on that export trade in a world in which all of the markets that we formerly depended upon are completely shattered by economic conditions in Europe? Are we going to go into the future with our hands tied behind our backs with regard to the actions which we can take in Canada to offset the adverse external influences communicated to us by the nations with which we are surrounded?

It is important to note. . . .

(and this was said with regard to the result of all these difficulties to which I have referred, in examining their effect upon the provincial budgets at the time when this Sirois report was drawn up.)

It is important to note that some of the provinces are quite unable to meet their obligations and at the same time to provide the social and educational services which Canadians have come to look upon as essentials. Such a situation cannot leave the other provinces unconcerned. The investors in other provinces will suffer in the case of public or private insolvency among their neighbours. The producers in other provinces will suffer if markets are destroyed. . . . More important than all these considerations taken together is the danger to national unity if the citizens of distressed provinces come to feel that their interests are completely disregarded by their more prosperous neighbours, and that those who have been their full partners in better times now tell them they must get along as best they can and accept inferior educational and social services.

Those are not the words, Mr. Chairman, of any politician, western or eastern. Those are not the words of a demagogue. Those were the words of a group of men who were scientifically and objectively studying the problems of the country, and this is the conclusion to which they come; and it is a conclusion which I recommend to the Premier of Ontario.

The Commission's proposals will inevitably place on the shoulders of taxpayers in the more prosperous provinces heavier burdens than those which they bear to-day, but these burdens will not be so heavy as those which they will have to bear, directly from increased taxation and indirectly through restriction of the national income, if present conditions continue.

No one has questioned the general findings of the Sirois Report that the tax structure of our country should be reformed and that the widely varying financial capacities of the Canadian provinces should be equalized. Nor does anyone question their general finding that this involves increases in the taxation of citizens of the more prosperous provinces in order to help the less well-to-do provinces. Both Premier Drew and Premier Duplessis have said from the beginning and repeatedly that as good Canadians they were entirely willing that this should be done. The first part of that Ontario plan of January sets forth the method by which this can be done. Both the Sirois report and the present Dominion tax proposals recommended a transfer from the taxpayers of the more prosperous provinces to the support of governmental services in the less well-to-do provinces. These payments to the provinces, in the case of the Sirois report, take the form of fiscal need grants and, in the case of the Dominion proposals a greatly increased per capita subsidy. The Ontario plan of January, on the other hand, proposes that these transfers will be effected by provincial taxes—10 per cent of certain provincial taxes would be put into a national adjustment fund which would then be divided amongst the provinces on basis of need. This would in turn involve an increase of 10

per cent in the amount of taxes to be imposed in order to replace the money going into this national adjustment fund. Thus the Ontario plan proposes that the transfer of purchasing power from the citizens of the wealthy provinces to the less well-to-do provinces would be effected by provincial taxation and through provincial treasuries.

But the main point, Mr. Chairman, is this; that during this war in order to wage the war we had to engage in a very large amount of human activity and we had to raise our national income to quite unprecedented levels. While that raise in national income was taking place, inevitably as time went on, the finances of the federal treasury, the service of the war debt, the budgets of the provincial treasuries and the municipal treasuries, and the prosperity of the people all came to be geared to the maintenance of this national income. If we do not maintain it the simple arithmetical consequences will be that we will have a repetition after this war of the depression that we had in the 1930s, perhaps not to as great an extent, but a repetition of depression conditions.

The only way in which we can consume in this country the amount of production which the people of Canada at the present level of technical efficiency are capable of producing is by very greatly increasing the standard of living of the masses of the Canadian people. Unless that standard is increased we will not be able to employ the people now required to maintain the present rate of production.

What concerns the provincial treasuries is this, that the standard of living of the Canadian people in some of its most important branches such as public health, roads and education is provided by the provincial treasuries, if that Canadian standard of living is to be increased it can only be increased as a result of the sound condition of the provincial treasuries, because they alone have jurisdiction over these fields of government activity. If they have not the money with which to discharge their responsibilities there will be no increase in the standard of living, and Canada will not achieve the consumption which that increase would involve. As a result of failing to increase consumption, production will be curtailed, and unemployment will result.

For that reason, Mr. Chairman, so far as Manitoba is concerned, we are willing to come back here again in June, or again half a dozen times if necessary, to reach an agreement, because in our province, and I think it is true of every province of Canada, there is not a single item of public business to-day which even approaches this one in importance.

Mr. DOUGLAS: Mr. Prime Minister, it has been suggested by two of the premiers that we should adjourn to-day and reassemble some time later; it has been suggested not until next June. As far as Saskatchewan is concerned, we are quite prepared to agree to come back if by coming back there is any hope of reaching some unanimous agreement. But I think, Mr. Chairman, we need to be as realistic as possible in facing an issue of this sort. We have now reached a place where we have two positions which have been taken, and which in so far as the over-all amount of money to be spent has by both been stated to be an irrevocable position. Now, if there can be no compromise found between those two positions it seems to me there is not much value in coming back here a month from now, and if we can find a compromise proposition now it seems to me difficult to understand why it cannot be worked out while we are here. If, however, there is a better chance of our studying the matter until a month from now and then coming back here with some chance of reaching an agreement, then everyone, of course, is perfectly prepared to see us adjourn and come back later.

It seems to me having come down here now, I think it is four times, that we might just as well stay here and try to work out an agreement, if an agreement is possible, and if some middle course between the two positions can be found.

In order that the position may be clear as far as we are concerned, I would like to place on record just what we consider to be the situation as it now stands. Seven of the provinces have agreed to accept the federal proposals in their amended form. True, there have been some minor modifications on some points as to the allocations of the total amount, but on the basis of the total amount which the federal government has offered, several of the provinces indicated their willingness to accept. Those provinces, of course, are here and can speak for themselves, as I speak for Saskatchewan; however, they have indicated their willingness to accept these proposals, and we do so not because we think they do all the things that we would like to see done, and not merely because they offer us a cash subsidy of a stated amount, but because there should be taken into consideration these facts, that in addition to a cash subsidy the federal government has undertaken to assist nationally in certain very necessary social services which our government certainly would find it very difficult to finance on its own. And, as I said the other day, and I want to repeat, just as important as the cash subsidy is the fact that the federal government, or the federal treasury, as a contribution towards fiscal need will be underwriting a part of the cost of the health insurance scheme, assuming responsibility for old age pensioners 70 and over without a means test, and 50 per cent of the cost of caring for old people between the ages of 65 and 69; and in addition will accept responsibility for the unemployed.

Now, it is because of this extra consideration, because of the taxes collected on the national level that the federal government has indicated its willingness to accept as a national responsibility to do certain things for these needy people in certain of the provinces which alone will make it possible, it is because of that that we have indicated our willingness to sign an agreement on the basis of the federal government's proposals. That is the position, I take it, of the provinces who have indicated their willingness. The other two provinces, the province of Ontario and the province of Quebec—I am sorry the Premier of Quebec is not here, I would have preferred for him to have been here, but it is not my responsibility that he is not here; and I have just as many pressing duties at home as he has—these two provinces have indicated that the offer of the federal government is unacceptable because they are opposed to the principle of one government receiving the money and another government spending it. I take it that would be just as true if the Ontario proposals were accepted as if the federal government proposals were being accepted. And, if the province of Quebec takes that position, they might just as well have taken it last August and saved themselves and us a great deal of trouble.

Now, the province of Ontario has taken the position that they are prepared to surrender two major tax fields; and, as I said yesterday, a great deal of credit should be given to them, because they have moved a long way from the position which they took in their original brief of January last. I want just to state in a few words the two positions, because it may be that somewhere between the two some compromise position may be found. The federal government is offering cash subsidies to the provinces which total at the present time \$198,000,000. Now, it is hardly fair to leave the figure at that. To that would have to be added \$200,000,000 for old age pensions over 70, from which \$40,000,000 should be subtracted because they are providing that now, but that will leave \$160,000,000; and that brings it up to \$360,000,000. The federal government is assuming an equal burden to that carried by the provinces by contributing \$12.96 per capita—and that works out at approximately \$115,000,000 and brings the total up further. Then they are assuming the responsibility of 50 per cent of the cost of old age pensioners between the ages of 65 and 69, involving another \$17,000,000; making a total of \$527,000,000. And to that would have to be added the cost involved in unemployment assistance, with respect to which I have no estimate at hand at the moment. So the

federal government proposal, it should be kept in mind, cannot be measured entirely in terms of \$198,000,000; it has to be measured in terms of great national responsibility for social services which they are underwriting, and that must be added to the \$198,000,000 of cash subsidies.

The government of Ontario suggests that the cash subsidies should be \$12 per head but that the basis should be a different basis—1941 rather than 1942; and that certain tax fields should be reserved for the provinces, and that the federal government should assume full responsibility for all old age pensions and for pensions for the blind, and pay for the foreign exchange which the provinces and municipalities require.

Now, Mr. Drew suggested this morning that we should say where we stand with reference to the Ontario proposals. So far as Saskatchewan is concerned the Ontario proposals would mean, in cash, about \$2,000,000 more; and, of course, nobody ever shuts the door on Santa Claus. But there are two things which should be kept in mind—it is always more fun to play Santa Claus at somebody else's expense.

Mr. DREW: There is no Santa Claus in it.

Mr. DOUGLAS: There are two things to be kept in mind; the first is, on the basis of this formula presented by Ontario, because of the fact that the tax fields which they asked the provincial government to have exclusively are much more lucrative fields for Ontario than they would be for some of the other provinces, and Ontario stands to gain much more by this agreement relatively than would the other provinces—I estimate roughly that their per capita would be 12 per cent higher than the per capita which would be received by the other provinces. It may be necessary in order to get some kind of an agreement with Ontario, because it is a place where wealth is concentrated and they may have to get more out of the pot than they put in; although I think that principle is entirely contrary to the whole principle of fiscal need which we have been arguing in this conference and which was the underlying thesis of the Ontario report. There is another feature of the Ontario proposals that just gives me a little concern. One thing which Colonel Drew in his arguments has kept reiterating before this conference was the fact that our difficulties were principally due to the fact that we were trying to cover too wide a field and that we ought to consider this mainly as a tax agreement and leave out extraneous matters. I am not sure as to what he meant by "extraneous matters", but I want to make it perfectly clear as far as we are concerned that we do not consider that the federal government undertaking to make 60 per cent of provision for health insurance as extraneous; we do not consider any social services which the federal government is prepared to assist in establishing as extraneous; but we are not prepared to provide certain essential social services which we would find it very difficult to maintain without federal assistance; we are not prepared to barter these for, let us say, \$2,000,000, because the basis of this ought to be per capita and that means a great deal more to us than the element of fiscal need, on which no stipulated set amount of money would be indicated.

These are the two proposals; under the one the federal government put up \$198,000,000, but as I pointed out one has also to keep in mind that the augmented proposal involves an additional cost to the federal government of \$134,000,000 as a minimum.

Now, Mr. Chairman, I have never fancied myself as a conciliator. I have neither the temperament nor the patience to have ever been a conciliator; but it occurs to me that there might be possibly a middle ground between these two positions, providing that neither party considers their position to be in a state of finality.

The \$134,000,000 which the federal government says it will cost, in addition to the regular proposals, to accept the Ontario proposal, were already broken down this morning: the statutory subsidies \$17,000,000; tax transfers,

\$102,000,000; cash subsidies, under the letter X formula, \$188,000,000, making a total of \$307,000,000; and that, already, is \$109,000,000 more than the cash subsidies offered by the federal government; and then, added to that is \$17,000,000 for fifty per cent of the carrying cost of old age pensions; \$1,000,000 for blind pensions; and \$7,000,000 for the cost of paying exchange taxes; making a total in all of \$134,000,000.

I am going to suggest, as a possible compromise, to be put on the record, if we are going to have an opportunity to think it over, to see if there is not a possible middle ground. I suggest, first of all, that Ontario be prepared to forego its request that the federal government meet the cost of the exchange; pensions for the blind; old age pensions; and that we write these out and come back to the main breakdown, \$307,000,000; made up of \$17,000,000 for statutory subsidies; \$102,000,000 for tax transfers; and \$188,000,000 for cash subsidies. If we take the statutory subsidies of \$17,000,000 and add them to the formula X, \$12, and \$188,000,000, we get \$205,000,000 which will be an amount of the annual expenditure in cash which the federal government will be called upon to pay. Then, I would take the \$102,000,000 of Dominion transfers, and divide it roughly in two; \$50,000,000 of which is the succession duties; and I suggest that is a compromise to which the provincial governments could agree, either to surrender the succession duty field or to share it with the federal government so that any money they collected from succession duties would be applied against their cash subsidy. The \$52,000,000 represents the amount of money collected from the minor tax fields, and I suggest that if the provinces are prepared to vacate the succession duty field, or to share it with the federal government, the federal government might very seriously consider wiping out, or vacating the minor tax field which, they say, would cost \$52,000,000.

I am quite certain that it would not cost the federal government \$52,000,000. I know that as far as the province of Saskatchewan is concerned, if the federal government withdrew from those fields tomorrow, and I refer not to the succession duty field, but to the other fields, that—if they withdrew from them all tomorrow—we would not collect one dollar of them, we would not collect anything from the pari-mutuel tax, nor from the security transfer tax, nor from the amusement tax, because we have already given it to the municipalities. The electricity tax we would not impose because we are engaged in a programme of rural electrification and I do not know any better way to discourage it than to put a sales tax on electricity. The gasoline tax would give us no revenue; we would not attempt to raise revenue that way because we already have a gasoline tax of eight cents a gallon; we would not impose another three cents a gallon. In a great scattered province like ours, gasoline is not a luxury, it is an absolute necessity.

While people gladly and quietly paid an extra three cents a gallon in wartime, I believe there would be a strong feeling against paying it in peacetime; and, moreover, in our province gasoline is used on the farms, and as such it is tax free. So, on fifty per cent of the gasoline sold in our province the government gets the tax, but we would not get it because we could not discriminate between the eight cents and the three cents. So, now, the \$52,000,000 which the federal government says it would be giving us, it would not be giving provincial governments \$52,000,000.

We would not rent those tax fields from the federal government because we would not have any intention of using them. I cannot see the federal government, within the next four years, assuming the agreements going into effect next May, May 1947, within the next four years continuing a three cent gasoline tax, especially an over-all tax applied to producers as well as consumers.

So, it seems to me that there might be a possible compromise with \$17,000,000 statutory subsidies, plus \$188,000,000 of cash subsidies, totalling \$205,000,000

as the cash annual outlay of the federal government; and that the provincial governments either surrender or share the succession duty field; and that the federal government vacate these minor tax fields and leave them exclusively to these provinces who want to use them.

I reiterate again and make the suggestion, knowing perfectly well that we won't use them; and I do not think the federal government will use them very long. Therefore, it seems to me that, if by dividing the \$102,000,000 in the tax transfer item, we could reach some unanimity, then it might be possible to get an agreement. I suggest that, Mr. Chairman, as a possible compromise. I know, of course, there would have to be some special arrangements made in the case of British Columbia; it would not work well in the case of British Columbia; and I would give them an option, just as is offered now, of 150 per cent, under the Wartime Tax Agreement; and also I recognize that Prince Edward Island has certain fundamental problems, where costs are fixed.

I suggest that, Mr. Chairman, as a possible compromise in the hope that it can either be discussed while we are here, or that when we return it may be a basis for discussion. I want to say, very bluntly and very frankly, that, if a compromise cannot be reached, then we have only two alternatives left. One is that we shall simply go home. As far as I am concerned I would much rather go home and call it off than to keep coming back to something which becomes increasingly hopeless. If we go home, we must go home to try to finance things in our own province.

I want no person to go away from this conference with the impression that those of us who have pleaded to have the Dominion government's proposals introduced have done so because of fear that we cannot manage. As I said the other day, the province from which I come has produced hundreds of millions of dollars worth of wealth, and there is an annual drain on that wealth which is used to pay insurance companies, trust companies, banks, oil companies and railroads; the wealth is drained off, wealth which we have not been able to tax. We think there are ways by which it can be taxed; I do not say that by way of a threat; but there are ways in which it can be taxed.

A Conservative government in Saskatchewan passed an Act which enabled the provincial government to tax interest paid outside of the province. It has never been used but it can be; so, if we each go home in that spirit we shall have to think in terms of economic sectionalism rather than in terms of a nation as a whole.

Let no one deceive himself; the effect on Canada will be bad. We will be reducing this country to an economic jungle in which each area will be fighting for its own survival. It will be a case of the law of survival of the fittest or survival of the slickest; probably a combination of both. It will do a great deal more to wreck Confederation than some of the people think who have been worrying about Confederation being hurt because of their not being paid larger subsidies by the federal government. I, for one, hope that a policy like that will not have to be entered upon in this country.

We have made many speeches about Canada, and, during the war, under the impetus of our desire to destroy tyranny, we demonstrated what Canadians can do, by acting together. Now, we do not want to demonstrate what Canadians can do to destroy this country by acting separately. That is one of the alternatives.

The other alternative which I mentioned the other day is: that if it is impossible for us to reach a compromise, then the federal government must say whether or not it is prepared to sign an agreement with the remaining provinces. Here, I say, that while the federal government may not want to commit itself now, I say that the responsibility for leadership in this matter rests squarely on their doorstep.

Some of us have said on behalf of our governments, and with the support of our legislatures, that we are prepared to conclude an agreement with the

federal government on the terms which they have offered. It seems to me that if no other way can be found, and I hope some other way will be found and every avenue explored, but if it cannot be found, then the federal government has a responsibility to the remaining provinces to see, that so far as it is concerned, it is prepared to conclude an agreement with those provinces, rather than to let them return to exercise power for their own survival, which cannot help but be detrimental to the welfare of Canada as a whole.

Mr. CLAXTON: Mr. Chairman and gentlemen, before we adjourn, there are some things which I feel should be said. In the first place, I think those of you who know my colleagues and myself, would not expect that silence on our part would be taken for acquiescence in whatever was said this morning by Mr. Drew, speaking for the province of Ontario.

But he did make some statements to which some brief reference should be made here and now. Mr. Drew enunciated two principles which he put forward with his accustomed vigour. He first suggested that subsidies were a bad thing, and again and again he quoted authorities in support of that principle. Yesterday, it became evidence that his own plan provided not only for subsidies, but for subsidies which totalled \$204,900,000, as opposed to the \$198,000,000 of subsidies which were proposed under the federal government's plan. It has become clear that the only difference on this question of principle was a question of amount of money.

Mr. Drew also enunciated another principle and that was: that the Dominion government should only stay in the field where it had constitutional responsibility and authority under section 91 of the British North America Act. But in this connection, too, his plan as put forward in the province of Ontario's suggestion, was that we should assume the entire costs of old age pensions and pensions for the blind, and also that we should assume the full cost of relief for unemployed employables, both of which are matters which everyone acknowledges are exclusively within the jurisdiction of the provinces.

From these two examples, Mr. Chairman, we may reach the conclusion that when Mr. Drew said they were not interested in the amount but in the principle, that to the contrary the amount had everything to do with it; and when he said they were not haggling over monetary terms, that, perhaps, was a very accurate description of the attitude taken, because the difference of \$134,000,000, as a minimum difference, is certainly not haggling!

This afternoon Mr. Drew referred, as I understand it, to the estimate of his proposals put forward by the Minister of Finance as being "unadulterated nonsense". Last night—

Mr. DREW: I did not say the proposals; I said the figures which you are now quoting.

Mr. CLAXTON: Yes, the figures which he quoted; the estimates which he gave of the Ontario proposals were referred to as being unadulterated nonsense. Last night, when, for the first time, we learned of the Ontario figures, we made a very hasty estimate, both the Minister of Finance and myself. We arrived at a minimum difference between our figures and the Ontario figures of \$100,000,000 as the extra cost to the Dominion. At that time Mr. Drew said that was too high. To-day, the Minister of Finance has been able to go over the figures more carefully and arrive at a minimum figure of \$134,000,000, which may easily go up to something like \$200,000,000. The Premier of Ontario said that he did not entirely agree with the figures, in his statement earlier to-day, but that he was not going into details about it.

It would be interesting to learn if this appreciation, or effort at appreciation that we have made of the Ontario figures is very far wide of the mark, because it would have a very important bearing on future discussions.

With regard to the question of Australia, as I said last night, it is awfully difficult to compare situations in two different countries unless you make a full comparison, taking into account every kind of element. As an illustration of this difficulty, I gave you the rather astonishing fact, to our mind, that in Australia the federal government imposed a land tax. As Mr. Drew said to-day, it is a relatively small item in their budget, one per cent, I think, he said. I do not know that that is wrong, but it is an illustration of the fact that situations are quite different in different countries and that everything must be taken into account in order to make an effective comparison.

But, when we come to the tax agreement that was made in Australia, we find this: that the tax agreement which was made to take effect on the first of July, 1942, provided for a payment to the States of approximately the same amount as they had, themselves, collected from income tax in the previous year, and that amount represented 60 per cent of the total revenue of the States.

Before the Australian tax agreement expired, new agreements were proposed, and the federal government offered the states £40,000,000 which, as I pointed out last night, is not, \$200,000,000 as was claimed by Mr. Drew, but \$142,000,000, at current rates of exchange. And the states, after some negotiations, accepted that settlement.

As Mr. Ilsley pointed out to-day, it was seventeen per cent more than the amount that the states had received under their wartime tax agreement; whereas, in Canada, the Dominion proposal is some 60 per cent more than the amount paid to the provinces under the tax agreement. But there is this astonishing difference between the situation in Australia and the situation in Canada, and that is this: that in the period prior to the tax agreement in Australia, the states collected 60 per cent of their revenue from income taxes, whereas, in Canada, the provinces collected some 17 or 18 per cent from income tax.

Now, when we come to compare conditions, we get into all kinds of disparities. For one thing, in Australia the federal government has a very wide, almost comprehensive system of social security for which it pays. Another thing, as Mr. Ilsley said, the states in Australia exercise to a very considerable degree the functions which municipalities exercise in Canada; so, it is very difficult indeed to make any effective comparison of these situations except to say that the improvement in the position of the Australian states under the tax agreement now entered into is far less than the proposed improvement which would result from the implementation of the federal government's proposals as laid before this conference.

In this connection, I might mention that in every confederation that we know about, and which have constitutions and standards of living in some ways comparable to our own—in Australia and in the United States, the central government has unrestricted powers of taxation just as the central government has in Canada, and, the development of social need, due to the increasing industrialization of the country and the wider recognition of social need has led in both countries to the central authority entering the field of social legislation to a very marked extent.

There were remarks by Mr. Duplessis which I would like to have referred to had he been here this afternoon; but even despite his absence I would like to make reference to one thing that he said, and that is, that when the federal government increased its proposal for a guaranteed minimum from \$12 to \$15, the Minister of Finance had to admit that the change was only fifty cents, as if the Minister of Finance was pushed into a corner and forced to admit that he had misled the conference. Now, I think anyone who knows the Minister of Finance and his reputation for integrity, his character, and the way he has won that reputation through his service to the Canadian people,

would know that he would never misrepresent anything. Anyone who knows Mr. Ilsley and his record would feel that this remark can hardly be taken seriously. The fact of the matter is that the change in the base was proposed to meet the express desire of certain provinces who wanted to have a higher guaranteed minimum. And it is practically inconceivable that in any situation the amount payable under the new proposals will be less than under the old; and for the year 1947, and almost certainly for the year 1948, it will be very considerably more.

I would like to just say this about the attitude of the Quebec government. It was quite evident from Mr. Duplessis's statements yesterday and today, and from the whole course of the conference that there has never been a moment when one could say on what terms or for what price the province of Quebec would be willing to come into the agreement. There has never been enough material before the conference emanating from the province of Quebec to enable us to put a dollar value on the cost of purchasing the fields of income tax and corporation taxes.

This morning Mr. Macdonald, speaking for Nova Scotia, for the first time introduced a suggestion that it might be possible for the federal government to give up its proposal to pay old age pensions at age seventy at the rate of \$30.00 a month, which would cost an estimated \$200,000,000, and either go along with the provinces in paying old age pensions from age 65 up on a means test basis contributed to 75 per cent by the federal and 25 per cent by the provinces, or on a new plan under which the amount payable at age 70 would be reduced from \$30 per month to \$20 per month.

I think this proposal illustrates the complexity of the matters with which this conference has had to deal. The province of Ontario, in its submission, suggested that it be put down as a condition that the Dominion government assume the full cost of old age pensions and pensions for the blind. The provinces of Saskatchewan, Alberta and British Columbia have taken the stand that we should if possible, increase the payments and reduce the age at which old age pensions are paid to the age of sixty-five. That was also the position which Ontario took, if it could be afforded. I am sure that that would be the wish of everyone if it could be afforded. I cite this illustration to show that there are conflicting points of view on such subjects in Canada, and that the federal government in working out its proposals, arrived at suggestions to put before the conference which would meet the expressed needs of several of the provinces and of different sections of Canada, namely, to introduce old age pensions without a means test at the age of seventy.

In this connection the Premier of Nova Scotia, made a comment, which is often made: that this would bring a payment of pensions of \$30 a month at the age of seventy to millionaires. There are some millionaires, of course. But I might point out that this proposal has always been envisaged as one which would give the Canadian people, as a right, a pension at age 70, and one which the Canadian people could be expected to contribute to in the same way as is the case with every other old age pension plan throughout the world, where the people have a right to a pension at a certain age, without a means test. In our proposal, we did contemplate a social welfare tax, and, as was indicated, the amount of it, the incidence of it, and who would pay it, has not yet been fixed. We did not yet know what kind of an agreement would be worked out with the provinces. But our millionaires would make their contributions in the same way as anyone else; and also the old age pensions that they got, would be subject to tax like any other income, so, some of these millionaires would, in fact, be charged twice for what they got. I do not know of any other way of providing for a social security measure applied to everyone, or to make provision for or satisfy the requirements of all those who are entitled to benefit under a law that may be adopted.

In this connection it is interesting to note that the proposals I have mentioned for old age pensions applying as of right in consideration of a contribution is one which all the political parties of Canada have put forward as desirable.

The other matter I might mention is health insurance. Mr. Douglas has just referred to it as being important in the total Dominion plan and that view has been expressed by all the western provinces. Actually, the Dominion proposals were worked out after consultation with the provinces at a conference which took place on the 10th, 11th and 12th of May 1944; and all the Provincial Ministers of Health were present. The Dominion draft bill on health insurance and health grants were there discussed. A number of comments and criticisms were made and every effort was made to meet these criticisms in the proposals which were put before the Provinces on the 8th of August last as since modified. Those proposals envisaged the Dominion contributing up to sixty per cent of the cost which was estimated at \$21.60 per capita, and the provinces were expected to meet the balance of \$8.64. The estimated amount of \$8.64 would only have to be met by the Provinces which entered into the plan and only then in so far as they entered into it. If a province entered the amount could be met in one of four different ways. There was never any thought of a Dominion requirement of a poll tax of \$12 or \$10 or any other amount. There was never any indication that any poll tax so called would be required. But it was proposed that there would be a registration fee which would be paid by or for anyone who would benefit. That would be in lieu of what he might usually pay for doctors' bills and hospital costs. The cost of these proposals for old age pensions and health insurance were to be met in part out of a social security tax but only in part. That was understood right along.

Coming now to the question of constitutional responsibility, we have in the health insurance plan something which would fall to be administered by the provinces. Also the old age pension plan for those under 70 provides for administration by the provinces. So each of these falls within the conditions for co-operation which were laid down by Mr. Duplessis in his brief. At no point was there any breach of constitutional practice or anything of that kind suggested in these proposals.

I mention these points to indicate that the Dominion plan was not only a plan for an adjustment with regard to taxes, but it was a plan which was comprehensive and which aimed to deal with the main needs and desires of the Canadian people. Unfortunately in the discussion, too much emphasis has been allowed to be placed on the tax provisions. They are important, very important to everyone, including the treasurers of the provinces, but they are by no means the whole story.

Not only was emphasis placed on the tax suggestions, but it has now become clear that undue emphasis has been placed on the gasoline tax and so on. At times it was made to appear as if the gasoline tax alone stood in the way of an agreement. Nothing could be more wrong.

Looking back on the events of this week, we will see that if anyone has the impression that the success or failure of this conference depended on the gasoline tax or anything of that nature, they will be completely mistaken.

These proposals, the proposals of the Dominion government were designed to constitute a workable, comprehensive and progressive program for the reconstruction of Canada, not only insofar as the federal government was concerned, but also designed to put the Provinces in possession of funds, dependably, year in and year out, which would enable them to discharge their responsibilities. The magnitude of the Dominion proposals are gauged from the figures. Let us see what they are. First: Per capita grant estimated for 1947 of \$198,000,000. Half the Dominion Corporation Tax on specified public utilities \$5,000,000. Health Insurance (assuming full participation, which would only be achieved after a

number of years), \$150,000,000. Health Grants, (assuming full participation), \$15,000,000. National Old Age Pensions for people over 70, \$200,000,000. Old Age Assistance, \$20,000,000. Making a total burden when the plan was fully in operation of \$588,000,000 for the federal government.

In addition the proposals provided for assistance for provincial and municipal public works, public investment projects, lending money for hospital construction, assistance to the unemployed who are able and willing to work, and facilitating the collection of retail sales taxes. These provisions would directly relieve Provincial budgets, and they would be in addition to the measures already adopted by the federal parliament including the most generous rehabilitation and family allowances provisions in the world, floors under farm and fish prices, prairie farm rehabilitation. All these provisions are of direct benefit to all the provinces of Canada, all the treasuries of all the provinces of Canada, as well as all the people everywhere in Canada.

Mr. Chairman, these proposals were put forward after a great deal of study and work. They received we had thought serious consideration by all the Provinces, and by the Economic Committee which met for twenty-six days, during which we answered questions and explained details in the hope of arriving at an agreement.

It becomes apparent from the discussion to-day that agreement is not possible at the moment, but I think everyone here expressed the hope that it may be possible that some means may be found whereby the representatives of the people of Canada in the Provinces, and also in the Dominion of Canada, might get together on a plan which will serve their interests and enable them to make the utmost use of the opportunities this great country has in the years which lie ahead.

Some people use the term in speaking of their opposite number—"Ottawa wants to do this"—"Ottawa"—"Ottawa." That is maybe a convenience in a discussion of this kind. But it is important to realize that Ottawa is only the centre where we are meeting, and the place where the Federal Government has its capital; and that far from being "Ottawa," we who represent the Federal government here represent the people who elected us, represent them in just the same way and in exactly the same degree as do the representatives of the provinces. They represent the people of their provinces and we represent the people of all of Canada, of every province, of every part and of every race. In these discussions sometimes it is very easy to refer to others as "they". It becomes increasingly important that we should refer to all of us as "we," and recognize that all the people of Canada want to make an agreement that will enable us to work together in peace as we have done in war for the prosperity of our country and for the happiness of our people.

Mr. McNAIR: Mr. Chairman, I have little to say at this time. I merely wish to record this; that I do not share the view that has been expressed here, that the breakdown of this conference will be due entirely or primarily to the attitude of the Dominion government. In my view the main difference here is that the lines are now drawn by or between certain provinces on the one hand and certain other provinces on the other. I shall not seek to elaborate any further on that point, but to illustrate it may I draw your attention to one of the fundamental conditions—and I use that word advisedly—one of the fundamental conditions laid down in the Ontario brief as a *sine qua non* to the signing of an agreement with the Dominion. I might observe that the provinces here have been asked, or invited, to comment on the Ontario proposals. I want to refer to the Ontario conditions No. 9, and I am about to quote from the official report of the proceedings of this present conference, the proceedings as recorded for April 29th, Monday last, at page 18 of the report; the ten basic principles which Ontario laid down as conditions precedent to entering into an agreement. The leading paragraph is as follows:—

That is the position of the Ontario government to-day and it will enter into such an agreement subject to the following conditions:—

9. Following the ratification of the new agreement—and I may say I attach particular importance to this—steps will be taken by the Co-ordinating Committee, with the assistance of the Economic Committee and such other assistance as may be deemed advisable, to conduct a thorough examination of the whole Canadian tax structure for the purpose of establishing a new and revised system of taxation which will leave clearly defined and clearly divided taxing powers to the Dominion and provincial governments.

On the top of page 19 these conditions are described as basic proposals, and are so described in other passages in the brief. Now, the nature of that condition would appear quite clear, indicating the adoption of a tax structure which is basic, as I understand it, to the Ontario position in any Dominion-Provincial financial arrangement.

I would refer to another passage of the brief. It is on page 21, of the same report, and reads as follows:—

The whole system of subsidies is wrong and should be brought to an end just as soon as a complete and exhaustive analysis of our tax structure can be carried out for the purpose of establishing a new tax structure in Canada.

Obviously, what Ontario is striving for is an ultimate rather than an immediate objective, a tax system for this country which would be altogether unsuitable to the majority of the provinces. Those provinces, because of the chronic economic unbalance which exists across Canada, must necessarily depend on federal subsidies to a substantial degree to maintain financial stability and discharge their constitutional functions.

Mr. Chairman, beyond what I have just said I do not care to go. I feel the occasion is one for restraint and do not wish to add further to my comments.

MR. DREW: I just want to make one thing perfectly clear, Mr. Chairman; since Hansard has been quoted we might as well make the record complete. In view of the fact that a certain section of the brief has been taken as indicating the sine qua non of the Ontario proposals, I want to remind the Conference that I have made it quite clear all along that nothing we have put forward is "take it or leave it."

Mr. GARSON: Except principles and the amount of the total demanded.

Mr. HART: Mr. Prime Minister, before adjournment I would like to make one observation; and that is, when I made the statement on behalf of British Columbia I drew attention to the fact that the position of British Columbia was different from that of the other Provinces; and here are some of the reasons for that statement. It seems to me that you have presented a formula that seemed to be fair and equitable and could be applied as a yardstick, as indicating a reasonable amount which could be paid to British Columbia. We do not seek to place British Columbia in any favoured position, because we are prepared to co-operate in bringing about agreement among all the provinces that would place them in a financial position to meet their responsibilities.

Yesterday afternoon when I saw that the conference was drifting I moved, seconded by the Premier of Prince Edward Island, that we should go back into Co-ordinating Committee, feeling that if we were there we would have an opportunity of discussing some of these matters more informally, and that we might make better progress; but after seeing the position of to-day I think there is no use in pressing the motion now. I will say that British Columbia is prepared to come here at any time for the purpose of bringing about and finding a solution of this important matter.

And let me say in conclusion that I regret exceedingly that this Conference is about to adjourn without arriving at an agreement, so necessary and so important.

Mr. MACDONALD: I suggested this morning, Mr. Chairman, that we adjourn. The only point on which I am not clear is as to the time to which we should adjourn. I would like to hear what the other premiers have to say to that.

Mr. ILSLEY: Mr. Prime Minister and gentlemen, it is quite obvious that to arrive at an agreement will be impossible this afternoon. The Premier of Quebec is not here, and in any event there is a very wide gap between the points of view that have been expressed and the decisions that have been taken, with the result that agreement at the moment is found to be impossible. There has been much discussion as to who is to blame for that position. I do not propose to enter into a discussion of that at all. To do so would not advance the purposes for which the Conference was called.

It is evident to me that it would be undesirable to indicate any particular date to which this conference should be adjourned. It seems to me that it is the duty of the government to give consideration to the various proposals and suggestions which have been put forward. The Premier of Ontario suggested, as I understand it, that we alter the basis of the proposed agreement; and Mr. Macdonald also made some changes that might possibly be made. Mr. Douglas on the other hand expressed a point of view in many respects opposite to that of Mr. Macdonald; he suggested a splitting of the differences, or compromise, between the Ontario position and the Dominion position. He said, rather soundly I think, that he did not expect his suggestion to be accepted, at least this afternoon; but he wanted to place it on record for consideration.

We have on the record what has been said by the various Premiers. It is now our duty to give consideration to the situation as it has developed, and announce our decision in due course as to the procedure that should be followed to deal with that situation. I do not think we can do anything beyond that at the present time.

As the Prime Minister reminds me, I must proceed at once with the preparation of the budget. It is not possible for me to wait until an agreement is reached, and I will have to prepare the budget in the light of the fact that no agreement has been reached. In the meantime my suggestion is that we should adjourn *sine die*, and that the government take into consideration the points of view that have been expressed here to-day, and then arrive at a decision as to the procedure to follow and the position to take.

Mr. MACDONALD: Mr. Chairman, I take it that Mr. Ilsley is not suggesting that there will not be another conference. The Premier of Quebec who is not here said he would come back at any time. I would hope that the representatives of the Dominion government here stand in the same position, and are prepared to try it.

Mr. MACKENZIE KING: Gentlemen, it has been moved that the Conference adjourn *sine die*. All those in favour of the motion will please say "aye".

Some PREMIERS: Aye.

Mr. MACKENZIE KING: Those opposed say "nay".

(No replies)

Mr. MACKENZIE KING: I declare the motion carried unanimously.

The Conference then adjourned, *sine die*, at 5:33 p.m.

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